EMPIRE INSURANCE COMPANY

AUDITED FINANCIAL STATEMENTS
December 31, 2014 and 2013
with Report of Independent Auditors

TEODORO SANTAMARIA CANLAS & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

The Shareholders and the Board of Directors
Empire Insurance Company
2nd Floor Prudential Life Plan Bldg.
843 A. Arnaiz Street, Makati City

We have audited the accompanying financial statements of Empire Insurance Company, which comprise the statement of financial position as at December 31, 2014 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Empire Insurance Company as of December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of Empire Insurance Company as of and for the year ended December 31, 2013 was audited by another independent auditor who expressed an unqualified opinion on those statements on April 15, 2014

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on taxes, duties and licenses fee in Note 32 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 management and 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.

TEODORO SANTAMARIA CANLAS & CO.

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Partner
CPA License No. 83524
Valid until December 9, 2017
BOA/PRC Registration No. 5593
Valid until December 31, 2017
SEC Accreditation No. 1116-AR-1 (Individual)
Valid until May 5, 2017
SEC Accreditation No. 0308-F (Firm)
Valid until April 15, 2018
BIR A.N. 08-003408-2-2013 (Individual)
Valid until March 5, 2016
BIR A.N. 08-003408-0-2013 (Firm)
Valid until March 5, 2016
TIN 102-921-088
PTR No. 4763321; Issued in Makati City
January 20,2015

April 16, 2015

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EMPIRE INSURANCE COMPANY

STATEMENTS OF FINANCIAL POSITION

	Notes		December 31 2014		2013
ASSETS					
Current assets					
Cash and cash equivalents	2,4,27	P	41,575,606	P	37,794,533
Premiums due from ceding companies	2,3,5,27		17,231,421		19,610,729
Reinsurance recoverable on losses	2,3,5,27		82,839,253		53,800,541
Premiums receivable	2,3,5,27		29,469,079		19,473,421
Commission receivable	2,3,5,27		11,193,584		10,597,507
Premiums reserve withheld by ceding companies	2,3,5,27		11,120,255		10,931,276
Salvage recoverable	2,3,5,27		977,355		1,393,972
Receivables	2,3,5,27		2,030,222		2,047,021
Current tax assets	2		1,397,492		1,016,672
Other current assets	2,6,27		15,434,815		15,849,594
			213,269,082		172,515,266
Non current assets					
Held-to-maturity financial assets	2,7,27		200,453,720		226,061,720
Available-for-sale financial assets	2,8,27		206,735,379		176,447,081
Property and equipment	2,3,9		5,225,195		4,656,547
Pension asset	2,18		4,963,867		7,394,136
Other non-current assets	2,10		1,766,517		1,131,608
Deferred tax asset, net	2,25		6,071,701		4,479,310
			425,216,379		420,170,402
		P	638,485,461	P	592,685,668
LIABILITIES AND EQUITY					
Liabilities					
Current liabilities					
Claims payable	2,11,27	P	73,238,687	P	61,816,763
Premiums due to reinsurers	2,12,27		58,635,303		54,919,797
Commission payable	2,13,27		28,208,670		21,050,439
Reserve for unearned premiums	2,14,27		51,565,747		42,981,812
Premiums reserve withheld for reinsurers	2,15,27		2,577,220		5,202,430
Payables	2,16,27		2,927,867		884,643
Other liabilities	2, 17		11,505,543		13,568,344
			228,659,037		200,424,228
Equity					
Share capital	2,19		250,000,000		250,000,000
Retained earnings	20		108,509,641		91,351,822
Unrealized gain on available-for-sale financial assets	2,8,27		48,723,794		46,960,007
Treasury stocks	2,19		(76,886)		(76,886)
Remeasurement gain	2,18		2,669,875		4,026,497
			409,826,424		392,261,440
		P	638,485,461	P	592,685,668

See Accompanying Notes to Financial Statements.

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STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Years Ended December 31 2014	2013
Underwriting income	2,3,22	P 116,706,203	P 103,015,234
Underwriting expense	2,3,22	(83,136,953)	(83,929,069)
Net underwriting income	2,22	33,569,250	19,086,165
Other income			
Investment	2,23	12,215,486	15,331,324
Gain on sale of investment	2	-	23,283,551
Others	2	758,797	37,644
		12,974,283	38,652,519
Total underwriting and other income		46,543,533	57,738,684
Other direct costs	2,24	14,694,914	13,112,090
General and administrative expenses	2,24	19,923,295	19,355,592
Operating profit before finance income		11,925,324	25,271,002
Finance income			
Foreign exchange gain	2,3,27	42,588	267,208
Dividend income	2	6,977,622	5,017,993
		7,020,210	5,285,201
Profit before bonus		18,945,534	30,556,203
Bonus	2	(2,841,830)	(4,583,430)
Profit before income tax		16,103,704	25,972,773
Benefit from income tax	2,25	(1,054,115)	(5,316,932)
Net profit for the year		17,157,819	31,289,705
Other comprehensive income (loss) *to be reclassified to profit or loss*			
Net gain (loss) on available-for-sale financial assets	2,8,27	1,772,650	(27,474,074)
Tax effect		(8,863)	137,383
		1,763,787	(27,336,691)
Other comprehensive loss *not to be reclassified to profit or loss*			
Remeasurement loss	2,18	(1,938,031)	(1,522,256)
Tax effect		581,409	456,677
		(1,356,622)	(1,065,579)
Total comprehensive income for the year		P 17,564,984	P 2,887,435
Earnings per share	2,26		
Basic and diluted		P 6.86	P 12.52
Book value per share	2,26	P 163.93	P 156.90

See Accompanying Notes to Financial Statements.

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STATEMENTS OF CHANGES IN EQUITY

Year Ended December 31, 2014

	Share capital (Note 19)	Retained earnings (Note 20)	Net unrealized gain on AFS financial assets (Notes 2,8,27)	Treasury stocks (Note 19)	Remeasurement Gain (Notes 2, 18)	Total
Balances at January 1, 2014	P 250,000,000	P 91,351,822	P 46,960,007	P (76,886)	P 4,026,497	P 392,261,440
Net profit for the year	-	17,157,819	-	-	-	17,157,819
Other comprehensive income	-	-	1,763,787	-	(1,356,622)	407,165
Total comprehensive income for the year	-	17,157,819	1,763,787	-	(1,356,622)	17,564,984
At December 31, 2014	P 250,000,000	P 108,509,641	P 48,723,794	P (76,886)	P 2,669,875	P 409,826,424

Year Ended December 31, 2013

	Share capital (Note 19)	Retained earnings (Note 20)	Net unrealized gain on AFS financial assets (Notes 2,8,27)	Treasury stocks (Note 19)	Remeasurement Gain (Notes 2, 18)	Total
Balances at January 1, 2013, *as previously reported*	P 250,000,000	P 71,175,168	P 74,296,698	P (22,612)	P 5,092,076	P 400,541,330
Prior period adjustments	-	(1,113,051)	-	-	-	(1,113,051)
Balances at January 1, 2013, *as restated*	250,000,000	70,062,117	74,296,698	(22,612)	5,092,076	399,428,279
Net profit for the year	-	31,289,705	-	-	-	31,289,705
Other comprehensive loss	-	-	(27,336,691)	-	(1,065,579)	(28,402,270)
Total comprehensive income for the year	-	31,289,705	(27,336,691)	-	(1,065,579)	2,887,435
Acquisition of treasury stocks	-	-	-	(54,274)	-	(54,274)
Cash dividends	-	(10,000,000)	-	-	-	(10,000,000)
At December 31, 2013	P 250,000,000	P 91,351,822	P 46,960,007	P (76,886)	P 4,026,497	P 392,261,440

See Accompanying Notes to Financial Statements.

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STATEMENTS OF CASH FLOWS

	Notes	Years Ended December 31 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		P 16,103,704	P 25,972,773
Adjustments for:			
Depreciation and amortization	2,3,9	1,611,927	2,324,257
Retirement expense	2,18	492,238	60,128
Interest income	2,23	(12,215,486)	(15,331,324)
Dividend income	2	(6,977,622)	(5,017,993)
Foreign exchange gain	2,3,27	(42,588)	(267,208)
Operating (loss) income before working capital changes		(1,027,827)	7,740,633
Changes in assets and liabilities:			
(Increase) Decrease in:			
Premiums due from ceding companies	2,3,5,27	2,379,308	1,628,047
Reinsurance recoverable on losses	2,3,5,27	(29,038,712)	82,078,739
Premiums receivable	2,3,5,27	(9,995,658)	1,576,871
Commission receivable	2,3,5,27	(596,077)	1,143,506
Premiums reserve withheld by ceding companies	2,3,5,27	(188,979)	(3,504,032)
Salvage recoverable	2,3,5,27	416,617	-
Receivables	2,3,5,27	16,799	(118,851)
Other current assets	2,6,27	68,229	(6,808,216)
Other non-current assets	2,10	(634,909)	(173,224)
Increase (Decrease) in:			
Claims payable	2,11,27	11,421,924	(81,968,679)
Premiums due to reinsurers	2,12,27	3,715,506	(1,361,055)
Commission payable	2,13,27	7,158,231	(2,302,208)
Reserve for unearned premiums	2,14,27	8,583,935	2,446,331
Premiums reserve withheld for reinsurers	2,15,27	(2,625,210)	-
Payables	2,16,27	2,043,224	(339,271)
Other liabilitites	2, 17	(2,062,801)	(3,246,072)
Cash used in operations		(10,366,400)	(3,207,481)
Income taxes paid	2	-	(1,135,916)
Interest received	2,4,23	245,381	1,046,477
Net cash used in operating activities		(10,121,019)	(3,296,920)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	2	11,970,105	14,284,847
Dividends received	2	6,977,622	5,017,993
Purchase of available-for-sale financial assets	2,8,27	(28,515,648)	(40,000,000)
Proceeds from sale of available-for-sale financial assets	2,8,27	-	5,624,366
Purchase of held-to-maturity financial assets	2,7,27	(892,000)	-
Proceeds from held-to-maturity financial assets	2,7,27	26,500,000	13,743,250
Purchase of property and equipment	2,3,9	(2,180,575)	(3,634,928)
Net cash provided by (used in) investing activities		13,859,504	(4,964,472)
Balance carried forward		3,738,485	(8,261,392)

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STATEMENTS OF CASH FLOWS

	Notes		Years Ended December 31 2014	2013
NET CASH USED IN OPERATING ACTIVITIES		P	(10,121,019)	(3,296,920)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			13,859,504	(4,964,472)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of dividends	20		-	(10,000,000)
Acquisition of treasury stocks	19		-	(54,274)
Net cash used in financing activities			-	(10,054,274)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,4,27		42,588	267,208
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,4,27		3,781,073	(18,048,458)
CASH AND CASH EQUIVALENTS, JANUARY 1			37,794,533	55,842,991
CASH AND CASH EQUIVALENTS, DECEMBER 31	2,4,27	P	41,575,606	P 37,794,533

See Accompanying Notes to Financial Statements.

1. CORPORATE INFORMATION

Empire Insurance Company (the Company) was incorporated on December 8, 1949 to engage in the business and operation of all kinds of insurance, reinsurance, insurance on buildings, automobiles, car and other motor vehicles, goods and merchandise, goods in transit, goods in storage, fire insurance, earthquake insurance, insurance against accidents, all other forms of undertaking to indemnify any person against loss, damage or liability arising from unknown or contingent events, except life insurance.

On May 26, 1999, the Securities and Exchange Commission approved the Company's application of extension of amended Articles of Incorporation to extend its life for another Fifty (50) years.

The registered office address of the Company is 2nd Floor Prudential Life Plan Bldg., 843 A. Arnaiz Street, Makati City.

The financial statements of the Company were authorized for issue on April 16, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The more significant accounting policies and practices of the Company are summarized below to facilitate the understanding of data presented in the financial statements.

Basis of Preparation
These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretation, which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the Securities and Exchange Commission (SEC), including SEC pronouncements.

The financial statements have been prepared under the historical cost convention except for available-for-sale investments that have been measured at fair value and Held-to-maturity investments measured at amortized cost. The Company's financial statements are presented in Philippine pesos, which is the functional and presentation currency under PFRS. All values are rounded to the nearest peso except as otherwise indicated.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Statement of Compliance
The financial statements of the Company have been prepared in compliance with the PFRS.

Current versus Non-current Classification
The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair Value Measurement

The Company measures financial instruments at fair value at each financial position 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 to 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.

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 categorised 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 prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

Changes in Accounting Policies

The following explains the significant accounting policies which have been adopted in the preparation of the financial statements. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes in accounting policies as explained below.

New and amended standards

The Company will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.* The amendment has introduced refinement to the meaning of "currently has legally enforceable right to set off" and also to clarify the application of the offsetting criteria to settlement system (such as central clearing house systems) that supply gross settlement mechanism that are not simultaneous. The amendment affects presentation only and the Company does not expect to have significant impact on its financial position and performance.

• PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

• PAS 39, *Financial Instruments: Recognition and Measurement Amendment to PAS 39 "Novation of derivatives"*
This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria. The amendments have no impact on the Company's financial position or performance.

• Philippine Interpretation IFRIC 21, *Levies*
This is an interpretation of IAS 37, "Provisions, contingent liabilities and contingent assets" IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This interpretation has no impact on the Company's financial statements.

• Amendments to PFRS 10, PFRS 12 and PAS 27, *Investment Entities*
These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an "investment entity" definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make. These amendments have no impact on the Company's financial position or performance.

• PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables.* The amendment explains that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Company's financial position or performance.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2014

The Company intends to adopt the following standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended standards to have significant impact on its financial statements.

• PFRS 9, *Financial Instruments.* PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward for PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will not have an effect on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment technology. The Company will not adopt the standard until the completion of the amendments and the phases of the project.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

• Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*. The implementation of the Philippine Interpretation is deferred until the final Review Standard is issued by IASB and after an evaluation on the requirements and guidance in the standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed. This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The interpretation will have no impact to the financial position or performance of the Company.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by the Board of Accountancy.

• PAS 19, Employee Benefits – *Defined Benefit Plans: Employee Contributions* (Amendments)
The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Company since it does not have a defined contribution plan with contributions from employees and third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The annual improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

• PAS 16, *Property, Plant and Equipment: Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization.* The amendment clarifies that when an item of property, plant and equipment is revalued, treatment shall be one of the following ways:

a. the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount. Accumulated depreciation is the difference between the gross and the net carrying amount.

b. the accumulated depreciation is eliminated against the gross carrying amount of the asset while the net amount is restated to the revalued amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. They shall apply to all revaluations recognized in annual periods beginning on or after the date of the initial application of this amendment and in the immediately preceding annual period. The amendment will not have a significant impact on the Company's financial position and performance.

• PAS 24, *Related Party Disclosures – Key Management Personnel.* The amendments clarify that the definition of a 'related party' shall extend to include management entities or a member of its group that renders key management personnel services to the entity. The amendments require also a separate disclosure of the amount recognized as expense by an entity for the provision of key management personnel services that are provided by a separate management entity. These amendments will take effect on annual periods beginning on or after July 1, 2014 and shall be applied retrospectively. The amendment will not have a significant impact on the Company's financial position and performance.

• PAS 38, *Intangible Assets: Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization.* The amendment clarifies that when an intangible asset is revalued, treatment shall be one of the following ways:

a. the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount. Accumulated amortization is the difference between the gross and the net carrying amount.

b. the accumulated amortization is eliminated against the gross carrying amount of the asset while the net amount is restated to the revalued amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. They shall apply to all revaluations recognized in annual periods beginning on or after the date of the initial application of this amendment and in the immediately preceding annual period. The amendment will not have a significant impact on the Company's financial position and performance.

• PFRS 2, *Share-based Payment - Definition of Vesting Conditions.* The amendment provides a clearer definition of *'vesting conditions'* by adding a separate definition for *'performance condition'* and *'service condition'*. The purpose of which is to consistently classify conditions relating to share-based payment. This amendment shall be applied prospectively to share-based payment transactions with the grant date on or after July 1, 2014. The amendment will not have a significant impact on the Company's financial position and performance.

• PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement.* This amendment has no impact on the Company's financial position or performance.

• PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets.* These amendments require that an entity shall disclose all the circumstances considered in identifying the entity's reportable segments upon aggregation of the operating segments. The amendments also require a disclosure of reconciliation of the total assets of the reportable segments to the entity's assets. These amendments are to take effect prospectively on annual periods beginning on or after July 1, 2014. The amendment will not have a significant impact on the Company's financial position and performance.

Annual Improvements to PFRSs (2011-2013 Cycle)
The annual improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

• PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements.* The amendment clarifies that the scope exception only applies to the financial statements of the joint venture or the joint operation itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. This amendment will not affect the Company's financial position and performance.

• PFRS 13, *Fair Value Measurement - Portfolio Exception.* Portfolio Exception as defined in PFRS 13 is a scope exception for measuring the fair value of a group of financial assets and financial liabilities. The amendment clarifies that the portfolio exception can be applied to all contracts whether or not it meets the definition of financial asset or financial liability as stated in PAS 32. The amendment has no significant impact on the Company's financial position or performance.

• PAS 40, *Investment Property.* The purpose of the amendment is to state that in determining whether a transaction is an acquisition of an investment party or whether it is an acquisition of a group of assets or a business combination that includes investment property, judgement is also needed. This amendment will not affect the Company's financial position and performance.

Effective January 1, 2016:

• PAS 16 and PAS 38*: Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments) The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company given that the Company has not used a revenue-based method to depreciate its non-current assets.

• PAS 16 and PAS 41 *Agriculture: Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company as the Company does not have any bearer plants.

• PAS 27, *Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial

statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Company's financial statements.

• PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016. This amendment has no impact on the Company's financial position or performance.

• PFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests (Amendments)*. The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company's financial statements.

• PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after 1 January 2016. This will have no impact to the financial position or performance of the Company.

Annual Improvements to PFRS (2012 – 2014 cycle)

Effective January 1, 2016:

The following improvements are not expected to have material impact on the Company.

• PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

• PFRS 7, *Financial Instruments; Disclosures – Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee

and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

• PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statement*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

• PAS 19, *Employee Benefits – regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

• PAS 34, *Interim Financial Reporting – disclosure of information elsewhere in the interim financial report*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report)

Effective January 1, 2018:

• PFRS 9, *Financial Instruments – Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)*
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles – based approach. Changes include replacing the rules – based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instruments, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA. The Company is currently assessing the impact of adopting this standard.

• PFRS 9, *Financial Instruments (2014 or final version)*
In July 2014, the final version of PFRS 9, Financial Instruments, was issued; PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015. The Company is currently assessing the impact of adopting this standard.

• IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five – step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are temporary placements with maturity of less than three (3) months which can be withdrawn anytime depending on the immediate cash requirement of the Company

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Investment Contracts
Insurance premiums are recognized directly as liabilities. Revenue consists of fees deducted for policy administration and surrender charges. Interest or changes in the unit prices credited to the account balances and excess benefit claims incurred in the period are charged as expenses in the statements of comprehensive income. The Company, however, has no investment contracts.

Deferred Policy Acquisition Costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred and charged to expense in proportion to the premium revenue recognized. Subsequently, these costs are amortized over the terms of the policies as premium is earned on a straight line basis using the 24^{th} method over the life of the contract except for marine cargo where commissions for the last two months of the year are recognized as expense the following year. Amortization is charged against the statement of profit or loss. The unamortized acquisition costs are shown in the assets section of the statement of financial position. All other costs are recognized as expense when incurred.

A review on impairment is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the statement of profit or loss.

Liability Adequacy Test

At each financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Any DAC written off as a result of this test cannot subsequently be reinstated.

Reinsurance Contracts Held

Contracts entered into by the Company with reinsurers under which it is compensated for losses on one or more contracts issued by the Company and meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contracts. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

Receivables and Payables related to Insurance Contracts and Investment Contracts

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognized that impairment loss in the statements of comprehensive income. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

Financial Assets

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss (FVPL), receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

All financial assets are recognized on their trade date. All financial assets that are not classified at a fair value through profit or loss are initially recognized at fair value plus transaction costs.

The foregoing categories of financial instruments are more fully described below.

Financial Assets at FVPL

Financial assets are classified as at fair value through profit or loss if they are acquired for the purpose of selling in the near term or if so designated by the management. Derivatives assets, including separated embedded derivatives are also classified as at fair value through profit or loss unless they are designated as effective hedging instruments.

Initial recognition and measurement

Financial assets at fair value through profit or loss are initially recorded at fair value. Transactions costs incurred for the acquisition of the financial assets are directly expensed outright.

Subsequent measurement

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

The Company has no investment classified under this category.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities 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 other financial assets held for trading, designated as AFS financial assets or securities at FVPL.

Initial recognition and measurement
Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. The fair value of the loan receivable at initial recognition is normally the transaction price, meaning the amount of the loan granted.

Subsequent measurement
After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, allowances or reversals of allowances being made where necessary on remeasuring.

Impairment of Financial Assets
A loan and receivable is deemed impaired when there is objective evidence that an impairment loss on loan and receivables has been incurred. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, and through the amortization process.

Loans and receivables includes cash and cash equivalents, premiums due from ceding companies, reinsurance recoverable on losses, premiums receivable, commission receivable, premiums reserve withheld by ceding companies, salvage recoverable and other receivables in the statement of financial position.

Available-for-Sale Investments
Financial assets of the Company include available-for-sale investments. AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three other categories. AFS investments include financial assets not quoted in an active market and are classified as AFS when purchased and held indefinitely, but which the Company anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading.

Initial recognition and measurement
AFS investments are recognized initially at fair value. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business as at the date of financial position. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measure are measured at cost less any impairment losses at end of each reporting period.

Subsequent measurement
After initial recognition, changes in the fair value of AFS investments are recognized in equity, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to the statements of comprehensive income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the statements of comprehensive income.

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

In case of equity investments classified as available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income reserve account and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income reserve account is reclassified from other comprehensive income reserve account to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from other comprehensive income account to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument are not reversed in profit or loss. Subsequent increases in the fair value after impairment are recognized directly in other comprehensive income reserve account.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in the profit or loss. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the profit or loss.

<u>Held-to-Maturity Investments</u>
HTM investments include non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments.

Initial recognition and measurement
Held-to-maturity investments are initially recorded at fair value plus transactions costs that are directly attributable to the acquisition or issuance of the financial asset. The fair value is usually the actual transaction price on the transaction date.

Subsequent measurement
Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

Impairment of Financial Assets
If there is objective evidence that a financial assets carried at amortized cost is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized under "asset impairment" in the statement of comprehensive income. If, in a subsequent period, the amount of an impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. If a future write-off is later recovered, the recovery is recognized in profit or loss.

Financial liabilities
All financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the profit or loss when the liabilities are derecognized or impaired, as well as through the amortization process.

Other Financial Liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

All financial liabilities are recognized initially at fair value of the consideration received less directly attributable costs. After initial recognition, these are subsequently measured at amortized cost using the effective interest method. When liabilities are impaired or derecognized, any gain and losses are recognized in the profit or loss.

Included in this category are the Company's claims payables, premiums due to reinsurers, commission payable, reserved for unearned premiums, premiums reserve withheld for reinsurers and other payables (except for tax liabilities).

The Company has no designated financial liability at FVPL.

Derecognition of Financial Assets and Liabilities
Financial Assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the Company's statements of financial position where:
- the rights 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 nor retained 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 rights 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 the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Purchases and sales of investments are recognized or derecognized on trade date, the date on which the Company commits to purchase or sell the asset. At initial measurement, financial instruments are measured equal to their fair value including transaction costs. Transactions costs incurred at a subsequent date related to the transfer or disposal of a financial instrument are not included in the subsequent measurement of the financial instrument. Such costs are only included in the statement of comprehensive income when derecognition occurs. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial Liabilities
Financial liabilities are derecognized when and only when obligation under liability is discharged or cancelled or 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 the profit or loss.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial condition 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.

As at December 31, 2014 and 2013, the Company is not off setting financial instruments in accordance with PAS 32 and does not have relevant offsetting arrangements. The Company is presenting its financial assets and financial liabilities at gross amounts in the statement of financial position.

Other Investments
Other investments which include outstanding collateral loans, real estate acquired and the Company's contribution to the Security Fund are stated at cost. These are included in other non-current assets.

Impairment of Reinsurance Contracts
The Company assumes reinsurance risk in the normal course of business for nonlife insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognized as revenue or 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 reinsurance companies. Amounts payable are estimated in a manner consistent with the related 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 expire or when the contract is transferred to another party.

The Company assesses at each financial position date whether there is objective evidence that a reinsurance contract is impaired. A reinsurance contract is impaired if, and only if:

- there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
- the event has reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and allowance for impairment loss. When assets are sold or retired, their cost, accumulated depreciation and any allowance for impairment are eliminated from the accounts and any gain or loss resulting from the disposal is included in the statements of profit or loss.

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

Depreciation is computed on a straight-line basis over the following estimated useful lives of the assets:

Building	20 years
Building improvements	1-5 years
Leasehold and improvements	2-5 years
Office furniture and fixtures	1-10 years
Transportation equipment	2-5 years
Electronic Data Processing Machine	1-5 years

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

Impairment of Nonfinancial Assets
Property and equipment and other non-current assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts.

The estimated recoverable amount is the greater of an asset's net selling price and value in use. 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. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment loss is recognized in the statements of comprehensive income.

Reversal of impairment losses recognized in prior years is recorded when that there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recorded in the statements of comprehensive income. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

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

<u>Share Capital</u>
Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

When the Company purchases the Company's equity shares capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

The Company's share capital includes common stocks and treasury stocks.

Retained earnings include all the accumulated earnings of the Company less dividends declared.

<u>Revenue Recognition</u>
Revenue is recognized to the extent that it is probable that the 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:

<u>Insurance Contracts and Investment Contracts</u>

(a) Recognition and Measurement

Short-term Insurance Contracts
These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events.

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).
Premiums from short duration insurance contracts are recognized as revenue over the period of contracts using the 24th method. The portion of the premiums written that relate to the unexpired periods of the policies as at the date of financial position are accounted for as Unearned Premiums and presented in the liability section of the statements of financial position. The related reinsurance premiums ceded that pertained to the unexpired periods as at the date of financial position are accounted for as Ceded Reinsurance Premiums shown as part of assets in the statements of financial position. The net changes in these accounts between financial position dates are either charged or credited to income.

Commission income earned from short duration insurance contracts are recognized as revenue over the period of contracts using the 24th method except for marine cargo where the deferred reinsurance commissions for the last two months of the year are considered earned the following year. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date is accounted for as deferred reinsurance commissions and lodged into commissions payable and presented in the liabilities section of the statement of financial position.

Interest income is recognized as the interest accrues using the effective interest method.

Other income includes gain on sale of stocks and investment income. Gain on sale is recognized when sold. Recovery from impairment losses is recognized when collected.

Dividend income is recognized when the right to receive payment is established. Revenues from dividends received and those from other sources are recognized when declared and earned regardless of when received.

Foreign currencies denominated monetary transactions are translated into the functional currency using the prevailing exchange rates at financial position dates. Exchange gains or losses arising from foreign currency transactions are credited or charged directly to operations.

Expense Recognition
Expenses are recognized in the statements of profit or loss when decrease in future economic benefit related to a decrease in asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset.

Benefits and Claims
Gross benefits and claims consists of benefits and claims paid to policyholders, which are based on the loss adjuster estimates. It further includes internal and external claims handling costs that are directly related to the processing and settlement of claims.

Insurance claims are recorded on the basis of notification received.

Other Underwriting Expenses
Other underwriting expense pertains to the costs incurred by the Company prior to the issuance of policies to its policyholders. These costs include expenses for technical inspections, actuarial reviews

and other work that is necessary to determine whether or not to accept the risks to be written. These costs are recognized as expense as they are incurred.

General Expenses
General expenses are recognized in the statement of profit or loss as they are incurred.

Comprehensive Income
The Company uses single statement of comprehensive income, in which it presents all items of income and expense recognized in the period.

Leases

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The Company as Lessee
Rentals payable under operating leases are charged to profit or loss on another systematic basis, which is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Employee Benefits

a. Retirement Cost
The Company's retirement plan is non-contributory and of the defined benefit type which provides a retirement benefit equal to One-half month's salary for every year of credited service in accordance with the Retirement Pay law (Republic Act No. 7641). Benefits are paid in lump sum upon retirement or separation in accordance with the terms of the plan. A The retirement cost is determined by applying the Accrued Benefit Actuarial Cost Method taking into account the factors of investment, mortality, disability and salary projection rate. The fund is administered by a duly appointed fund trustee.

b. Short-term employee benefits
Wages, salaries, paid annual leave, sick leave, bonuses, social security contribution, philhealth contribution, pag-ibig contribution and non-monetary benefits are recognized as employee benefit expense and accrued when the associated services are rendered by the employees of the Company.

c. Profit-sharing and bonus plans
The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Income Taxes
Current 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 as at the date of financial position.

Deferred taxes and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis of assets and liabilities and their related tax base. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The carrying amount of deferred income tax assets is reviewed as at the date of financial position and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed as at the date of financial position and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

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

Earnings per Share
Basic earnings per share is calculated by dividing net income by the weighted average number of , ordinary shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted earnings per share amounts are calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares outstanding that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Book Value per Share
Book value per share is calculated by dividing stockholders equity by the weighted average number of ordinary shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Provisions
Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the financial position date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each financial position date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered probable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

Contingencies
Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. They are not recognized in the financial statements but 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 benefits is probable.

Subsequent Events
Post year-end events that provide additional information about the Company's position at financial position date (adjusting events) are reflected in the financial statements. Post year end events that are not adjusting events are disclosed in the notes to financial statements when material.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments

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

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Revenue Recognition

The Company's revenue recognition policies require use of estimates and assumptions that may affect the reported amounts of revenue and receivables.

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenues and expenses of the Company.

Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the financial position 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 discussed below.

Determination of Fair Values of Financial Assets

Fair value determinations for financial assets are based generally on listed market prices or broker or dealer price quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect the market prices, fair value is based on their 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 use of assumptions could produce materially different estimates of fair value.

The Ultimate Liability Arising from Claims made under Insurance Contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

Estimates have to be made for the expected ultimate cost of claims reported at the reporting date. It can take significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of notified is that of using past claims settlement trends to predict future claims settlement trends. At each end of the reporting period, prior year claims estimated are assessed for adequacy and changes made are charged to provision. Claims are not discounted for the time value of money.

The 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 claim costs. Historical claims development is analyzed by accident years but can also be further analyzed by significant business lines and claim types. Large claims are usually addressed by being reserved at the face value of loss adjuster's estimates. Assumptions used are those implicit in the historical claims development data on which the projections are based.

Estimated Allowance for Impairment Losses on Receivables
The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the account. However, as of December 31, 2014, no allowance for impairment losses was provided for, as the accounts were deemed fully collectible.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

Estimated Useful Lives of Property and Equipment
The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

Financial Assets and Liabilities
The Company carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. foreign exchange rates, interest rate), the amount of changes in fair value would differ if the Company utilized different value methodology. Any changes in fair value of these financial assets and liabilities would affect directly the statements of other comprehensive income and statements of changes in equity. Fair values of financial assets and liabilities are disclosed in details in Note 27.

Asset Impairment
The Company assesses impairment on 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 review include the following:

- significant underperformance relative to the 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No indications of impairment were noted on property and equipment as of December 31, 2014 and 2013.

Retirement Benefit Obligation
The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The valuation results are based on the employee data as of valuation dates as provided by the Company. The average discount rate was based on bootstrapped PDEX PDST-R2 rates at various tenors as of December 29, 2014 and December 27, 2013. Assumed discount rate is used in the measurement of the present value of the obligation, service and interest cost.

Deferred Income Tax Assets
The Company reviews the carrying amounts of deferred income tax assets at each financial position date and reduces deferred income tax assets 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 assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of the deferred income tax assets to be utilized.

4. CASH AND CASH EQUIVALENTS

This account consists of:

	2014	2013
Cash in banks	P 24,545,149	P 28,370,198
Short-term financial assets	14,544,022	9,142,822
Cash on hand	2,486,435	281,513
	P 41,575,606	P 37,794,533

Cash in bank earns interest at floating rates based on daily bank deposit rates. Short-term financial assets are done for varying periods between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. Interest income for the December 31, 2014 and 2013 amounted to P245,381 and P1,046,477, respectively.

5. REINSURANCE

The Company utilizes reinsurance agreements to minimize its exposure to large losses in all aspects of its insurance business. Reinsurance permits recovery of a portion of losses from reinsurers, although, it does not discharge the primary liability of the Company as direct insurer of the risk reinsured.

Premiums Due From Ceding Companies
This account represents balances due to the Company as a result of treaty and facultative acceptances from ceding companies. The Company's premiums due from ceding companies amounts to P17,231,421 and P19,610,729 for the years 2014 and 2013, respectively.

Reinsurance Recoverable on Losses
This account represents the amount recoverable from reinsurers under treaty and facultative agreements as their share in paid and unpaid losses and loss adjustment expenses net of salvage recoveries. The Company's reinsurance recoverable on losses amounts to P82,839,253 and P53,800,541 for the years 2014 and 2013, respectively.

Premiums Receivable
This represents uncollected premiums on direct business including those by general agents and insurance brokers including taxes and other charges, provided these are properly segregated and the corresponding liabilities are set up. The Company's premiums receivable amounts to P29,469,079 and P19,473,421 for the years 2014 and 2013, respectively.

Commission Receivable
This account represents uncollected commissions on treaty and facultative agreements. The Company's commissions receivable amounts to P11,193,584 and P10,597,507 for the years 2014 and 2013, respectively.

Premiums Reserve Withheld By Ceding Companies
This account pertains to a certain percentage of the total reinsurance premiums due within one year from date of retention being held by ceding companies. The Company's premium reserve withheld by ceding companies amounts to P11,120,255 and P10,931,276 for the years 2014 and 2013, respectively.

Salvage Recoverable
This account represents the estimated recoveries the Company may have from losses on policies issued. The Company's salvage recoverable amounts to P977,355 and P1,393,972 for the years 2014 and 2013, respectively.

Receivables
This represents receivable from non-insurance transactions. The Company's receivables amounts to P2,030,222 and P2,047,021 for the years 2014 and 2013, respectively.

6. OTHER CURRENT ASSETS

This account consists of:

	2014	2013
Prepaid investment expenses	**P 8,787,591**	P 10,060,947
Accrued investment income	**2,877,220**	2,749,112
Documentary stamps tax receivable	**3,194,908**	2,257,662
Notes receivable	**376,170**	493,885
Prepaid expenses	-	101,026
Fire service tax receivable	**198,926**	186,962
	P 15,434,815	P 15,849,594

7. HELD-TO-MATURITY FINANCIAL ASSETS

This account consists of:

	2014	2013
Treasury bills	**P 13,500,000**	P 40,000,000
Treasury bonds	**159,850,720**	158,958,720
Treasury notes	**27,103,000**	27,103,000
	P 200,453,720	P 226,061,720

Held-to-maturity financial assets of the Company carry effective interest rates as follows:

	2014	2013
Less than one year	**4.30 - 8.13**	4.30 - 8.13
More than year	**6.38 - 9.10**	6.38 - 9.10

The movement in held-to-maturity financial assets is summarized as follows:

	2014	2013
At January 1	**P 226,061,720**	P 239,804,970
Additions	**892,000**	-
Maturities	**(26,500,000)**	(13,743,250)
At December 31	**P 200,453,720**	P 226,061,720

At each reporting date, the Company performs evaluations of the impairment of held-to-maturity financial assets. The Management determines whether it intends to sell or if it is more likely than not that it will be required to sell impaired financial assets. The Management considers current and forecasted liquidity requirement, regulatory and capital requirements and securities portfolio management. For all impaired HTM financial assets for which there was no intent or expected requirement to sell, the evaluation considers all available evidence to assess whether it is likely the amortized cost value will be recovered.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale investments which consist of listed/unlisted equity shares which are measured at *fair market value* and *at cost* are as follows:

a) Available-for-sale-investments which consist of listed equity shares which are measured at fair market value are as follows:

2014	No. of Shares	Investment at Market Value	Investment at Cost	Unrealized gain (loss)	Deferred taxes
Equity shares					
Ayala Corporation- Preferred B	80,000	P 40,080,000	P 40,000,000	P 80,000	P 400
Globe Preferred Shares	40,000	20,080,000	20,000,000	80,000	400
National Reinsurance Corporation	7,999,000	7,199,100	13,684,987	(6,485,887)	(32,429)
Paper Industrial Corporation	787	-	3,820	(3,820)	(19)
Philippine Long Distance and Telecommunication Company	114	331,284	-	331,284	1,657
PLDT Series Preferred	6,670	-	66,700	(66,700)	(334)
Bank of the Philippine Islands	800,168	74,536,535	19,832,143	54,704,392	273,522
Petron Perpetual Preferred	83,060	8,455,508	8,421,220	34,288	171
San Miguel Corporation-Preferred Series A	411,800	31,132,080	30,885,000	247,080	1,235
San Miguel Purefoods Preferred	8,000	8,072,000	8,024,000	48,000	240
		P 189,886,507	P 140,917,870	P 48,968,637	P 244,843

2013	No. of Shares	Investment at Market Value	Investment at Cost	Unrealized gain (loss)	Deferred taxes
Equity shares					
Ayala Corporation- Preferred B	80,000	P 41,680,000	P 40,000,000	P 1,680,000	P 8,400
National Reinsurance Corporation	7,999,000	10,878,640	13,684,987	(2,806,347)	(14,032)
Paper Industrial Corporation	787	-	3,820	(3,820)	(19)
Philippine Long Distance and Telecommunication Company	114	303,924	-	303,924	1,520
PLDT Series Preferred	6,670	-	66,700	(66,700)	(334)
Bank of the Philippine Islands	724,695	61,599,075	14,737,715	46,861,360	234,307
Petron Perpetual Preferred	50,000	5,450,000	5,000,000	450,000	2,250
San Miguel Corporation- Preferred Series A	411,800	31,358,570	30,885,000	473,570	2,368
San Miguel Purefoods Preferred	8,000	8,328,000	8,024,000	304,000	1,520
		P 159,598,209	P 112,402,222	P 47,195,987	P 235,980

b) Available-for-sale-investments which consist of proprietary share and unquoted equity shares measured at cost.

	2014	2013
Proprietary shares		
Wack-wack Golf Club	**P 15,000,000**	P 15,000,000
Sta. Elena Club	**1,750,000**	1,750,000
Makati Sports Club	**35,000**	35,000
Unquoted equity shares		
Acoje Mining	**28,425**	28,425
Nuclear Insurance Pool, Inc.	**10,000**	10,000
Phil. Machinery Mgmnt. Services	**20,000**	20,000
PDCP	**5,447**	5,447
	P 16,848,872	P 16,848,872

The movement in this account is summarized as follows:

	2014	2013
At January 1	**P 176,447,081**	P 169,545,521
Additions	**28,515,648**	40,000,000
Disposition	**-**	(5,624,366)
Fair value changes	**1,772,650**	(27,474,074)
	P 206,735,379	P 176,447,081

In evaluating impairment of available-for-sale financial assets they consider a number of factors including, but not limited to, the length of time and extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and management's ability and intent to hold the securities until fair value recovers. Based on the results of the evaluation, as of December 31, 2014 unrealized losses on some AFS are temporary.

9. PROPERTY AND EQUIPMENT

Movements in the property and equipment account in 2014 follow:

	Building and Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Electronic Data Processing Machine	Leasehold and Improvements	Total
Cost						
Beginning balances	P 16,102,289	P 2,860,354	P 6,166,049	P 2,507,662	P 240,000	P 27,876,354
Retirement	-	-	(2,165,341)	-	-	(2,165,341)
Additions	409,290	269,720	1,149,641	178,956	172,968	2,180,575
Total	16,511,579	3,130,074	5,150,349	2,686,618	412,968	27,891,588
Accum. Depreciation						
Beginning balances	15,919,780	2,507,752	3,841,180	907,095	44,000	23,219,807
Depreciation and amortization	203,286	118,376	716,565	488,235	85,465	1,611,927
Retirement	-	-	(2,165,341)	-	-	(2,165,341)
Total	16,123,066	2,626,128	2,392,404	1,395,330	85,465	22,666,393
Net Book Value	P 388,513	P 503,946	P 2,757,945	P 1,291,288	P 327,503	P 5,225,195

Movements in the property and equipment account in 2013 follow:

	Building and Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Electronic Data Processing Machine	Leasehold and Improvements	Total
Cost						
Beginning balances	P 16,102,289	P 2,660,515	P 5,091,168	P 796,680	P -	P 24,650,652
Additions	-	199,839	1,484,107	1,710,982	240,000	3,634,928
Adjustment	-	-	(409,226)	-		(409,226)
Total	16,102,289	2,860,354	6,166,049	2,507,662	240,000	27,876,354
Accum. Depreciation						
Beginning balances	15,189,745	2,407,562	3,160,559	546,910	-	21,304,776
Depreciation and amortization	730,035	100,190	1,089,847	360,185	44,000	2,324,257
Adjustment	-	-	(409,226)	-	-	(409,226)
Total	15,919,780	2,507,752	3,841,180	907,095	44,000	23,219,807
Net Book Value	P 182,509	P 352,602	P 2,324,869	P 1,600,567	P 196,000	P 4,656,547

The total cost of fully depreciated property and equipment which are still in use amounted to P4,664,723 and P4,213,295 as of December 31, 2014 and 2013, respectively.

10. OTHER NONCURRENT ASSETS

This account consists of:

	2014	2013
Real estate acquired	P 279,974	P 279,974
Deferred charges-MCIT	884,409	491,747
Deposits	243,800	164,568
Taxes fund	206,060	148,411
Verification fund	134,372	-
Security fund	17,902	17,901
Service fee	-	29,007
	P 1,766,517	P 1,131,608

11. CLAIMS PAYABLES

This account comprises of the total amount of losses and claims due and payable to policyholders and other claimants. Also included in this account are losses and claims due and payable to reinsurers under treaty and facultative agreements.

The Company's claims payable amounts to P73,238,687 and P61,816,763 for the years 2014 and 2013, respectively.

	Claims payable	Reinsurers' share of liabilities	Net 2014	Claims payable and unearned premiums	Reinsurers' share of liabilities	Net 2013
Claims payable reported and loss adjustment expenses	P 73,238,687	P 49,167,910	P 24,070,777	P 61,816,763	P 35,106,032	P 26,710,731

12. PREMIUM DUE TO REINSURERS

This represents all the reinsurance premium payable by the Company to all its treaty and facultative reinsurers.

The Company's premiums due to reinsurers amounts to P58,635,303 and P54,919,797 for the years 2014 and 2013, respectively.

13. COMMISSION PAYABLE

Commission payable pertains to amount payable to agents, brokers and general agents for business underwritten by them or to ceding companies upon business accepted from them.

The Company's commission payable amounts to P28,208,670 and P21,050,439 for the years 2014 and 2013, respectively.

14. RESERVE FOR UNEARNED PREMIUM

The Company adopts the 24th method of recognizing premiums revenue and accounting for the portion of premiums written relating to the unexpired periods of the policies and unearned premiums.

A comparison of reserve for unearned premiums computed using this method and the statutory rate follows:

	2014	2013
Reserve using 24th method	P 51,565,747	P 42,981,812
Reserve using statutory rate 40%	47,662,260	39,566,253
	P 3,903,487	P 3,415,559

15. PREMIUM RESERVE WITHHELD FOR REINSURERS

Included in this amount is the portion of the reinsurance premiums ceded to insurers, which was withheld by the Company in accordance with treaty agreement and / or laws, rules and regulations.

The Company's premiums reserve withheld for reinsurers amounts to P2,577,220 and P5,202,430 for the years 2014 and 2013, respectively.

16. PAYABLES

Obligations of the Company arising from non-insurance and non-reinsurance transactions are lodged in this account.

The Company's payables amounts to P2,927,867 and P884,643 for the years 2014 and 2013, respectively.

17. OTHER LIABILITIES

This account consists of:

	2014	2013
Bonus payable	P 2,841,830	P 4,583,430
Taxes payable	2,730,956	2,183,257
Credits to client	2,281,849	2,630,653
Documentary stamps tax payable	2,117,986	1,979,071
Deposits	901,476	1,719,201
Unearned bond discount	375,487	405,997
SSS, Pag-ibig and Philhealth payables	137,019	-
Dividends payable	55,523	55,523
Service fees payable	50,711	-
Provident fund payable	4,350	4,350
Others	8,356	6,862
	P 11,505,543	P 13,568,344

18. RETIREMENT BENEFIT OBLIGATION

The Company has a retirement plan covering all its qualified employees. The plan is contributory and the retirement cost is determined by applying the Accrued Benefit Actuarial Cost Method taking into account the factors of investment, mortality, disability and salary projection rate. The fund is administered by a duly appointed fund trustee.

The above mentioned retirements plan falls under the defined benefit plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Movement in the present value of defined benefit obligation is summarized as follows:

	2014	2013
Present value of obligation, January 1	P 12,247,118	P 11,366,816
Current service cost	847,156	526,907
Interest cost	587,862	591,074
Actuarial (gain) loss	(91,959)	(237,679)
Present value of obligation, December 31	P 13,590,177	P 12,247,118

The movement in pension assets is summarized as follows:

	2014	2013
Fair value of pension assets, January 1	P 19,641,254	P 20,343,336
Expected return on pension assets	942,780	1,057,853
Actuarial gain (loss)	(1,206,095)	(1,759,935)
Fair value of pension assets, December 31	P 19,377,939	P 19,641,254

Asset recognized in the statements of financial position is as follows:

	2014	2013
Present value of obligation	P 13,590,177	P 12,247,118
Fair value of pension assets	19,377,939	19,641,254
Unfunded obligation	(5,787,762)	(7,394,136)
Asset ceiling	823,895	-
Retirement benefit obligation (asset)	P (4,963,867)	P (7,394,136)

Expenses recognized in the statements of profit or loss:

	2014	2013
Current service cost	P 847,156	P 526,907
Net interest cost	(354,918)	(466,779)
Retirement expense	P 492,238	P 60,128

Expenses recognized in the statements of other comprehensive income are as follow:

	2014	2013
Actuarial gain (loss) on obligation	P (91,959)	P 237,679
Remeasurement gain/(loss)- plan asset	1,206,095	(1,759,935)
Remeasurement gain/(loss) - changes in the effect of asset ceiling	823,895	-
Actuarial gain (loss) recognized during the year	P 1,938,031	P (1,522,256)

The cumulative amount of actuarial gains and (losses) charged to remeasurement gains are as follow:

	2014	2013
Remeasurement gain, beginning	P 5,752,138	P 7,274,394
Actuarial gain (loss) recognized during the year	(1,938,031)	(1,522,256)
Remeasurement gain, ending	P 3,814,107	P 5,752,138

Movement in net asset is summarized below:

	2014	2013
Beginning net asset	P (7,394,136)	P (8,976,520)
Expense recognized, profit or loss	492,238	60,128
Remeasurement gain	1,938,031	1,522,256
Closing net asset	P (4,963,867)	P (7,394,136)

The principal assumptions used in determining pensions for the Company are as follow:

	2014	2013
Discount rate	4.54%	4.80%
Salary increase rate	6.00%	6.00%

The expected return on pension assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as of the balance sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality and disability experience are based on published statistic generally used for local actuarial valuation purposes.

Actual return on plan assets:

	2014	2013
Expected return on plan assets	P 942,780	P 1,057,853
Actuarial gain (loss)	(1,206,095)	(1,759,935)
Actual return on pension assets	P (263,315)	P (702,082)

The *sensitivity* of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation			
	2014		2013	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	8.60%	0.80%	5.30%	4.30%
Salary growth rate	7.90%	1.30%	4.80%	4.80%

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the balance sheet date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all the other assumptions remained unchanged. The corresponding change in the defined benefit obligation was expressed as a percentage change from the base defined benefit obligation.

It should also be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

Retirement trust fund for December 31, 2014 is comprised of the following:

		2014
Cash and cash equivalents	0.00%	P 153
Equity instruments	0.01%	1,786
Debt instruments	41.08%	7,960,457
Unit Investment Trust Funds	40.84%	7,913,950
Mutual Funds	7.74%	1,499,852
Other (Market Gains/Losses, Accrued Receivables, etc)	10.33%	2,001,741
	100%	P19,377,939

Retirement trust fund for December 31, 2013 is comprised of the following:

		2013
Cash and cash equivalents	0%	P 255
Equity instruments	99%	19,659,348
Debt instruments	1%	(18,349)
	100%	P19,641,254

The retirement trust fund assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the plan trustee can make changes any time.

The Company has no specific matching strategy between the retirement fund assets and the defined benefit liabilities under the plan.

The Company expects not to contribute to the plan in 2015.

The weighted average duration of the defined benefit obligation is as follow:

	Years
Financial year	
2014	6.10

The Company's expected future benefits payments are as follow:

	Amount
Financial year	
2015	P 6,613,405
2016	861,299
2017	-
2018	4,508,359
2019	568,115
2020-2024	4,206,136

The distribution of eligible members as of December 31, 2014 is as follows:

	Male	Female	Combined
Number of lives covered	14.00	30.00	44.00
Average age in years	49.40	41.40	43.90
Average years of past service	13.10	12.50	12.70

Unusual or Significant Risks to which the Retirement Plan Exposes the Company
There are no unusual or significant risks to which the plan exposes the Company. However, in the event a benefit claim arises under the retirement plan and the fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Company to the fund.

Plan Amendments, Curtailment, or Settlements
There was no plan amendment, curtailment, or settlement recognized for the financial year ended December 31, 2014.

19. SHARE CAPITAL

This account consists of:

	2014	2013
Par value - P100 per share	**2,500,000 shares**	2,500,000 shares
	P 250,000,000	P 250,000,000

The Company has one hundred thirty four (134) shareholders each owning 100 or more shares of the Company's share capital as at financial position date.

Treasury Stocks
The Company's future earnings are restricted from the payment of dividends to the extent of P76,886 representing treasury shares for 2014 and 2013.

20. RETAINED EARNINGS

Declaration of Cash Dividend
On April 1, 2013, the Board of Directors declared a cash dividend amounting to P5,000,000 distributable to stockholders of record as of April 1, 2013, payable on April 30, 2013.

On October 25, 2013, the Company declared a cash dividend amounting to P5,000,000 distributable to stockholders of record as of October 23, 2013, payable on November 25, 2013.

Prior period adjustments
For the year December 31, 2013, this account consists of adjustments on previously recorded investment expense and tax settlements for prior years. As a result, the Company's retained earnings, prepaid expense and cash decreased by P1,113,051, P465,342 and P647,709, respectively.

21. RELATED PARTY TRANSACTIONS

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

Details of key management compensation and directors' remuneration follow:

	2014	2013
Key management compensation		
Salaries and other short-term benefits	**P 3,250,853**	P 3,254,322
Directors' renumeration	**1,776,054**	1,972,960
	P 5,026,907	P 5,227,282

As of December 31, 2014 and 2013, there were no sale and purchase of insurance and investment contracts, receivables, payables and loans to key management personnel.

As of December 31, 2014 and 2013, there were no services rendered and non-interest / interest bearing advances to / from associates and other related parties.

22. UNDERWRITING INCOME AND EXPENSES

This account consists of:

	2014	2013
UNDERWRITING INCOME		
Direct premiums-net	P 114,862,442	P 100,756,742
Add: Premiums assumed	27,529,425	30,149,042
Gross premiums	142,391,867	130,905,784
Less: Premiums ceded	23,305,011	31,990,151
Net premiums retained	119,086,856	98,915,633
Less: Premiums reserve for the year	51,565,747	42,981,812
Gross premium on net retained	67,521,109	55,933,821
Add: Premiums released from reserve	42,981,812	40,535,481
Premiums earned	110,502,921	96,469,302
Commissions earned	6,203,282	6,545,932
Total underwriting income	P 116,706,203	P 103,015,234
UNDERWRITING EXPENSES		
Agents' commission and expenses	P 33,948,132	P 30,019,328
Claims, losses paid and adjustment expenses	26,635,559	32,666,827
Insurance expense	22,553,262	21,242,914
Total underwriting expenses	83,136,953	83,929,069
NET UNDERWRITING INCOME	P 33,569,250	P 19,086,165

23. INVESTMENT INCOME

This account consists of:

	2014	2013
Income from investments in securities	P 11,970,105	P 14,284,847
Income from savings and time deposits	245,381	1,046,477
	P 12,215,486	P 15,331,324

24. OTHER DIRECT COSTS AND GENERAL AND ADMINISTRATIVE EXPENSES

Other direct costs consist of:

	2014	2013
Salaries and wages	P 9,206,786	P 8,381,805
Officers' and employees benefits	2,525,741	2,687,731
Professional fees	868,846	372,494
Taxes and licenses	845,620	353,781
Communication and postage	544,000	519,769
Printing, stationery and supplies	429,903	282,841
Repairs and maintenance	274,018	513,669
	P 14,694,914	P 13,112,090

General administrative expenses consist of:

	2014	2013
Salaries and wages	P 3,945,765	P 3,592,202
Depreciation and amortization (Note 9)	1,611,927	2,324,257
Officers' and employees benefits	1,082,460	1,151,885
Light and water	997,330	1,022,034
Rental expenses	902,057	702,416
Professional fees	868,845	372,495
Transportation and travel	672,378	573,825
Communication and postage	544,001	519,770
Directors' fees and allowances	484,000	500,500
Representation and entertainment	247,585	423,100
Printing, stationery and supplies	184,244	121,217
Repairs and maintenance	117,436	220,143
Insurance	91,614	114,501
Interest	63,589	134,709
Donations and contributions	21,500	513,000
Miscellaneous expenses	8,088,564	7,069,538
	P 19,923,295	P 19,355,592

As at December 31, 2014 and 2013, miscellaneous expenses pertains to the following:

	2014	2013
Advertising and promotions	23,326	65,756
Bank service charges	57,775	54,969
Association and pool dues	785,367	615,306
Service fee	1,694,894	1,114,550
Agency expenses	5,527,202	5,218,957
	P 8,088,564	P 7,069,538

25. BENEFIT FROM INCOME TAX

This account consists of:

	2014	2013
Current		
Corporate income tax	P (939,597)	P (5,378,191)
Deferred	(114,518)	61,259
	P (1,054,115)	P (5,316,932)

The reconciliation between the corporate income tax and income tax after applying the statutory tax rate on income tax follows:

	2014	2013
Statutory income tax	P 4,831,111	P 7,791,832
Income tax effect on:		
Tax exempt income	(3,591,031)	(4,285,454)
Income subject to lower tax rates	(73,614)	(313,943)
Income not subject to tax	(2,093,287)	(8,490,464)
Temporary differences	(12,776)	(80,162)
	P (939,597)	P (5,378,191)

Under Republic Act No. 9337 – Income tax amendments, the corporate income tax rate applicable from January 1 to October 31, 2005 of 32% in 2005 was increased to 35% effective November 1, 2005, decreasing to 30% effective on January 1, 2009. Because of the change in the corporate income tax rate, the allowable deduction for interest expense in Section 34(B)(1) is reduced by 42% (from 38%) of interest income subject to final tax and 33% (from 42%) upon the effectivity of the 30% corporate tax rate on January 1, 2009.

The Company's deferred tax asset (liability) consists of:

		2014		2013
Deferred tax assets:				
Net operating loss carry over (NOLCO)	P	**7,495,034**	P	6,555,437
Deferred tax liability:				
Unrealized foreign exchange gain		**(34,258)**		(114,506)
Remeasurement gain		**(1,144,232)**		(1,725,641)
Net unrealized gain on AFS		**(244,843)**		(235,980)
	P	**6,071,701**	P	4,479,310

The movements in the deferred income tax account are summarized as follow:

	NOLCO	Unrealized gain or loss on AFS	Unrealized gain or loss on FOREX	Remeasurement gain	Total
At January 1,2013	P 1,177,246	P (373,363)	P 61,271	P (2,182,318)	P (1,235,348)
Charge to profit or loss	5,378,191	-	(175,777)	-	5,202,414
Charged to other comprehensive income	-	137,383	-	456,677	594,060
At December 31, 2013	P 6,555,437	(235,980)	(114,506)	(1,725,641)	P 4,479,310
Charge to profit or loss	939,597		80,248		1,019,845
Charged to other comprehensive income		(8,863)		581,409	572,546
At December 31, 2014	**P 7,495,034**	**P (244,843)**	**P (34,258)**	**P (1,144,232)**	**P 6,071,701**

26. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

The computation of basic/diluted earnings per share is computed as follows:

	2014	2013
Net income	**P 17,157,819**	P 31,289,705
Divided by oustanding shares	**2,500,000**	2,500,000
	P 6.86	P 12.52

There were no potential dilutive shares in 2014 and 2013.

The computation of book value per share is computed as follows:

	2014	2013
Equity	P 409,826,424	P 392,261,440
Divided by oustanding shares	2,500,000	2,500,000
	P 163.93	P 156.90

27. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

The Company issues contracts that transfer insurance risk. This section summarizes these risks and the way the Company manages them.

Insurance Risk
The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

Property Insurance Contracts Risk
For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events and their consequences. For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

Casualty Insurance Risk
Claims on casualty contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted.

Reinsurance Risk
In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings. The effect of reinsurance on premium income follows:

	2014	2013
Direct premium income	P 114,862,442	P 100,756,742
Reinsurance assumed	27,529,425	30,149,042
Reinsurance ceded	(23,305,011)	(31,990,151)
	P 119,086,856	P 98,915,633

Financial Risks
The significant risks related to financial instruments are credit risk, liquidity risk and market risk (currency and interest rate). The following sections described how the Company manages each of the risks.

Credit Risk
Credit risk is the risk that a party to a financial instrument will cause a financial loss to the Company by failing to honor its obligation to the Company. Credit risks are primarily associated with invested assets and reinsurance counter parties. The Company mitigates credit risk through detailed credit and underwriting policies and comprehensive due diligence and credit analyses.

The Company's maximum credit exposure related to financial instruments is summarized in the following table.

	2014	2013
	(in Thousands)	
Cash and cash equivalents	P 39,089	P 37,513
Premiums due from ceding companies	17,231	19,611
Reinsurance recoverable on losses	82,839	53,801
Premiums receivable	29,469	19,473
Commissions receivable	11,194	10,598
Premiums reserve withheld by ceding companies	11,120	10,931
Receivables	2,030	2,047
Salvage recoverable	977	1,394
Held-to-maturity financial assets	200,454	226,062
Available-for-sale financial assets	206,735	176,447
	P 601,138	P 557,877

The Company has assessed the credit quality of the following financial assets:

- The credit risk for cash in bank is considered negligible, since the counterparties are reputable entities with high quality external credit ratings. The credit quality of this financial asset is therefore considered to be high grade. For the determination of credit risk, cash included in the analysis above do not include cash on hand amounting to P2,486,435 and P281,513 for the year 2014 and 2013, respectively.

- The Company's premiums and other receivables are actively monitored to avoid significant concentrations of credit risk.

As of December 31, 2014 and 2013, the aging analysis of the Company's receivables is as follows:

	Neither Past Due Nor Impaired			Past Due But	2014
	Class A	Class B	Class C	Not Impaired	Total
Cash and cash equivalents	P 39,089,171	-	-	-	P 39,089,171
Premiums					
Receivable	18,876,692	3,512,064	6,193,187	887,136	29,469,079
Due from ceding companies	381,675	727,528	16,122,219	-	17,231,422
Reserve withheld by ceding companies	-	-	11,120,255	-	11,120,255
Reinsurance recoverable on losses	21,141,160	14,176,535	47,521,558	-	82,839,253
Commission receivable	3,724,190	152,995	7,316,399	-	11,193,584
Salvage recoverable	-	-	-	977,355	977,355
Receivables	-	22,871	2,007,351	-	2,030,222
Financial assets					
Held-to-maturity	-	-	200,453,720		200,453,720
Available-for-sale	-	-	206,735,379	-	206,735,379
	P 83,212,888	P 18,591,993	P 497,470,068	P 1,864,491	P 601,139,440

	Neither Past Due Nor Impaired			Past Due But	2013
	Class A	Class B	Class C	Not Impaired	Total
Cash and cash equivalents	P 37,513,020	-	-	-	P 37,513,020
Premiums					
Receivable	12,915,132	4,172,873	1,717,058	668,358	19,473,421
Due from ceding companies	-	2,759,513	16,851,216	-	19,610,729
Reserve withheld by ceding companies	-	1,353,548	9,577,728	-	10,931,276
Reinsurance recoverable on losses		74,526	53,726,015	-	53,800,541
Commission receivable	721,688	6,648,955	3,226,864	-	10,597,507
Salvage recoverable	-	-	-	1,393,972	1,393,972
Receivables	13,034	94,118	1,939,869	-	2,047,021
Financial assets					
Held-to-maturity	-	-	226,061,720	-	226,061,720
Available-for-sale	-	-	176,447,081	-	176,447,081
	P 51,162,874	P 15,103,533	P 489,547,551	P 2,062,330	P 557,876,288

Credit Quality - In monitoring and controlling credit extended to counterparty, the Company adopts a comprehensive credit rating system based on financial and non-financial assessments of its borrowers. Financial factors being considered comprised of the financial standing of the borrower while the non-financial aspects include but not limited to the assessment of the borrowers nature of business, industry background, payment habit and both present and potential business dealings with the Company.

Class A "High Grade" are accounts with strong financial capacity and business performance and with the lowest default risk.

Class B "Moderate Grade" refer to accounts of satisfactory financial capability and credit standing but with some elements of risk where certain measure of control is necessary in order to mitigate risk of default.

Class C "Low Grade" refer to accounts which are collected on their due dates provided that the Company made a persistent effort to collect them.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to fund all cash outflow commitments as they fall due. The Company generally maintains a conservative liquidity position that exceeds all the liabilities payable on demand. The Company invests in various types of assets with a view of matching them with its liabilities of various durations. To strengthen its liquidity further, the Company actively manages and monitors its capital and assets levels, diversification and credit quality of its investments and cash forecasts and actual amounts against established targets. The Company also maintains liquidity contingency plans for the management of liquidity in the event of a liquidity crisis.

The table below summarizes the maturity profile of the Companies financial liabilities as of December 31, 2014 and 2013.

	Current		Non-current	2014
	Within 6 months	6 to 12 months	1 to 5 years	Total
Payables	P 2,927,867	P -	-	P 2,927,867
Claims payable	31,507,147	2,416,219	39,315,321	73,238,687
Premiums				
Due to reinsurers	58,635,303	-	-	58,635,303
Reserve for unearned	-	-	51,565,747	51,565,747
Reserve withheld for reinsurers	2,577,220	-	-	2,577,220
Commission payable	-	28,208,670	-	28,208,670
Others (excluding tax liabilities)	-	7,561,438	-	7,561,438
	P 95,647,537	P 38,186,327	P 90,881,068	P 224,714,932

	Current		Non-current	2013
	Within 6 months	6 to 12 months	1 to 5 years	Total
Payables	P -	P -	P 884,643	P 884,643
Claims payable	23,461,477	2,012,929	36,342,357	61,816,763
Premiums				
Due to reinsurers	54,919,797	-	-	54,919,797
Reserve for unearned	-	-	42,981,812	42,981,812
Reserve withheld for reinsurers	-	-	5,202,430	5,202,430
Commission payable	-	21,050,439	-	21,050,439
Others *(excluding tax liabilities)*	-	9,425,425	-	9,425,425
	P 78,381,274	P 32,488,793	P 85,411,242	P 196,281,309

Foreign Currency Risk
The Company's foreign currency risk results primarily from movement of the Philippine Peso (PHP) against the United States dollar. The Company resolved to mitigate this risk by taking advantage of market trends. Proper timing is adhered in order to realize a foreign currency gain.

Exposure to foreign exchange risk results primarily from the movements of the Philippine peso against the United States (U.S.) Dollar that arises from the Company's cash and cash equivalents and held to maturity financial assets, which are denominated in U.S. Dollars. As of December 31, 2014 and 2013, currency exchange rates used to translate U.S. Dollar denominated financial assets and liabilities amounted to P44.617 and P44.40, respectively.

The table below summarizes the Company's exposure to foreign exchange risk as of December 31, 2014 and 2013. Included in the table are the Company's assets at carrying amounts, categorized by currency.

	2014		2013	
	USD	PHP	USD	PHP
Cash and cash equivalents	$ 233,696	P 10,426,810	$ 211,279	P 9,380,798
Held-to-maturity investments	607,459	27,103,000	610,428	27,103,000
	$ 841,155	P 37,529,810	$ 821,707	P 36,483,798

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar rate, with all variable held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets) and the Company's equity.

	US $ Depreciates		US $ Appreciates	
	2014	2013	**2014**	2013
Effect on profit before tax	**$ 841,155**	$ 821,707	**$ (841,155)**	$ (821,707)
Effect on equity	**588,809**	575,195	**(588,809)**	(575,195)

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates to the Company's held-to-maturity investments.

The Company's policy is to manage its interest income using fixed rates receivable.

Interest risk to which financial assets are exposed is the risk of loss from fluctuations in the future cash flows or fair value of financial assets because of a change in market interest rates. Interest is managed principally using mixed of fixed and variable rate receivable.

Financial assets exposed to interest rate risk follow:

	Variable	Fixed	Total
As of December 31, 2014			
Financial assets:			
Held-to-maturity investments	P -	P 200,453,720	P 200,453,720

	Variable	Fixed	Total
As of December 31, 2013			
Financial assets:			
Held-to-maturity investments	P -	P 226,061,720	P 226,061,720

The term and maturity profile of the interest bearing financial assets of the Company, together with its corresponding nominal amounts and carrying values, are shown in the following table:

	Interest term per annum	Rate fixing period	Nominal Amount	< 1 year	1-5 years	> 5 years	Carrying Value
As of December 31, 2014							
Held-to-maturity investments	Fixed at the date of investment	5-24	P 200,453,720	200,453,720	-	-	**P 200,453,720**

	Interest term per annum	Rate fixing period	Nominal Amount	< 1 year	1-5 years	> 5 years	Carrying Value
As of December 31, 2013							
Held-to-maturity investments	Fixed at the date of investment	5-24	P 226,061,720	226,061,720	-	-	P 226,061,720

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before income tax in 2014 and 2013 as of December 31, 2014 and 2013.

	2014		2013	
	Effect on income statement	**Effect on Equity**	Effect on income statement	Effect on Equity
Increase in basis points (+100)	P **2,133,050**	P **1,706,440**	P 2,398,049	P 1,918,439
Decrease in basis points (-100)	**(2,133,050)**	**(1,706,440)**	(2,398,049)	(1,918,439)

Equity Price Risk
The Company is exposed to equity price risk arising from available-for-sale investments.

The available-for-sale investments are revalued on each reporting period end based on quoted market prices. Any resulting fair value gains or losses arising from the revaluation of the available-for-sale investments are recognized directly in the statement of comprehensive income. Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measure are measured at cost less any impairment losses at end of each reporting period.

Fair Value Measurement
The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm length transaction. In determining the fair value of its financial assets and liabilities, the Company takes into account its current circumstances and the costs that would be incurred to exchange or settle the underlying financial assets and liabilities.

	2014				2013			
		Carrying Amount		Fair Value		Carrying Amount		Fair Value
				(in thousands)				
Assets								
Cash and cash equivalents	P	41,576	P	41,576	P	37,795	P	37,795
Premiums due from ceding companies		17,231		17,231		19,611		19,611
Reinsurance recoverable on losses		82,839		82,839		53,801		53,801
Premiums receivable		29,469		29,469		19,473		19,473
Commission receivable		11,194		11,194		10,598		10,598
Premiums reserve withheld by ceding companies		11,120		11,120		10,931		10,931
Receivables		2,030		2,030		2,047		2,047
Other current assets		15,435		15,435		15,850		15,850
Salvage recoverable		977		977		1,394		1,394
Available-for-sale investments		206,735		206,735		176,447		176,447
	P	418,606	P	418,606	P	347,947	P	347,947
Liabilities								
Claims payable	P	73,239	P	73,239	P	61,817	P	61,817
Premium due to reinsurers		58,635		58,635		54,920		54,920
Commission payable		28,209		28,209		21,050		21,050
Reserve for unearned premiums		51,566		51,566		42,982		42,982
Payables		2,928		2,928		885		885
Premium reserve withheld for reinsurers		2,577		2,577		5,202		5,202
Bonuses payable (See Note 17)		2,842		2,842		4,583		4,583
Credits to clients (See Note 17)		2,282		2,282		2,631		2,631
Documentary stamps payable (See Note 17)		2,118		2,118		1,979		1,979
Fire service tax payable (See Note 17)		415		415		302		302
	P	224,811	P	224,811	P	196,351	P	196,351

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Financial Instruments Whose Carrying Amount Approximate Fair Value
The carrying amounts of cash and cash equivalents, unquoted equity securities, receivable from customers, payable to customers, payable to non-customers and payable to clearing house, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2014.

	Fair value measurement using						
	Quoted prices in active markets (Level 1)		Significant observable inputs (Level 2)		Significant unobservable inputs (Level 3)		Total
			(In Thousands)				
Available-for-sale financial assets							
Equity securities	P 189,886,507	P	-	P	-	P	189,886,507

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2013.

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(In Thousands)		
Available-for-sale financial assets				
Equity securities	P 159,598,209	P -	P -	P 159,598,209

Capital Risk Management
The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders.
- To retain the financial flexibility by maintaining strong liquidity and access to a range of capital markets.
- To align the profile of assets and liabilities taking account of risks inherent in the business
- To maintain financial strength to satisfy the requirements of the policyholders, regulators and shareholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximize shareholders value.

The operations of the Company are also subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring activities, but also impose certain restrictive provisions (e.g., capital adequacy) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise.

In reporting financial strength, capital and solvency are measured using the rules prescribed by the Insurance Commission of the Philippines.

Capitalization Requirements for Life, Non-Life, and Reinsurance Companies (Republic Act No. 10607)
Republic Act No. 10607 known as the Amended Insurance Code requires that no new domestic life or non-life insurance company shall, in a stock corporation, engage in business in the Philippines unless possessed of a paid up capital equal to at least One Billion Pesos (P1,000,000,000). Provided that a domestic insurance company already doing business in the Philippines shall have a net worth by June 30, 2013 of Two Hundred Fifty Million Pesos (P250,000,000). Furthermore, said company must have by December 31,2016 an additional Three Hundred Million Pesos (P300,000,000) in net worth; by December 31, 2019, an additional Three Hundred Fifty Million Pesos (P350,000,000) in net worth; and by December 31, 2022, an additional four Hundred Million Pesos (P400,000,000) in net worth.

The statutory net worth of life, non-life, and reinsurance companies shall include the Company's paid-up capital, unimpaired surplus, retained earnings, and revaluation increments as may be approved by the Insurance Commissioner.

As at December 31, 2014, the Company has complied with the 2013 minimum net worth of P250 million.

The capital structure of the Company consists of equity attributable to equity holders comprising issued capital and retained earnings.

There were no changes in the Company's approach to capital management during the period.

Unimpaired Capital Requirement

The Insurance Commission provided that for purposes of determining compliance with the law, rules and regulations requiring that the paid-up capital should remain intact and unimpaired at all times, the statement of financial position should show that the net worth or stockholder's equity is at least equal to the actual paid-up capital.

The following table shows the net worth and paid-up capital of the Company as of December 31, 2014 and 2013:

		2014		2013
Networth	P	291,842,359	P	275,830,867
Paid-up capital		250,000,000		250,000,000

Risk-based Capital Requirements
Insurance Memorandum Circular (IMC) 7-2006 provides for the Risk-based capital (RBC) framework for the nonlife insurance industry to establish the required amounts of capital to be maintained by the companies in relation to their investment and insurance risk. Every nonlife insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance company to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio is calculated by dividing the net worth by the RBC requirement.

The following table shows the RBC ratio as of December 31, 2014 and 2013:

		2014		2013
Networth	P	291,842,359	P	275,830,867
RBC Requirement		65,849,253		51,089,407
RBC ratio		443%		540%

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

28. DIVIDEND RESTRICTION

Dividends to stockholders which the Company may declare are subject to the provision of insurance law which stipulates that no such dividends may be distributed unless they originated from the excess profits after considering retention equivalent to the paid – up capital, the margin of solvency, the legal reserve fund, and all losses that may be incurred in settlement of liabilities for taxes and expenses.

29. SOLVENCY REQUIREMENTS

An insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations.

30. SECURITY FUND CONTRIBUTION

All insurance companies doing business in the Philippines shall contribute to the Security Fund the aggregate amount of P5,000,000. The contributions of the companies shall be in direct proportion to the companies' aggregate net worth as shown in their latest financial statements.

31. CONTINGENCIES

The Company is a party litigant in a case pending in the Regional Trial Court. As at December 31, 2014, the outcome of the case is uncertain. According to the Company's legal counsel, they have a good chance of winning the case.

32. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Revenue Regulation No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) No. 15-2010 which took effect on December 29, 2010 which provides for additional information required to be disclosed in the notes to financial statements regarding taxes, duties and license fee, paid or accrued, during the taxable year. Specifically, the disclosure should include the following: (a) amount of Value-Added Tax (VAT) output taxes declared during the year with account title and amount/s; (b) amount of VAT Input taxes claimed; (c) landed cost of imports and the amount of customs duties and tariff fees; (d) amount of excise taxes, classified per major product category; (e) documentary stamp tax (DST) on loan instruments and other transactions; (f) all other taxes, local and national, license and permit fees lodged under taxes and licenses account both under the Cost of sales and operating expense accounts; (g) amount of withholding taxes;(h) periods covered and amounts of deficiency assessments; and (i) tax cases and amounts involved.

In compliance with the requirements set forth by RR 15-2010, the following taxes are either paid or accrued by the Company.

1. The following table shows the Company's Sales and VAT output declared as of December 31, 2014 and 2013:

	2014	2013
Underwriting income	**P 101,254,308**	P 102,864,724
VAT output	**12,150,517**	12,343,767

2. The amount VAT Input taxes claimed are broken down as follows:

	2014	2013
Beginning of the year	P -	P -
Current year's purchases		
Domestic purchase of services	**3,343,020**	3,790,014
	3,343,020	3,790,014
Application against output VAT	**(3,343,020)**	(3,790,014)
Balance at the end of the year	P -	P -

3. Landed Cost, Customs' Duties and Tariff Fees

The Company did not have any importations in 2014 and 2013 that would require for the payment of customs duties and tariff fees.

4. Excise Tax

The Company did not have any transactions in 2014 and 2013 which are subject to excise tax.

5. Documentary Stamp Tax

The Company paid P11,451,073 and P11,951,403 as of December 31, 2014 and 2013, respectively.

6. Taxes and Licenses

The details of taxes and licenses are shown as part of expenses follows:

	2014	2013
Local		
Community tax	P 10,500	P 10,500
Business taxes and others	835,120	343,281
	P 845,620	P 353,781

7. Withholding taxes

The details of total withholding taxes paid and accrued for the year ended December 31, 2014 and 2013 are as follows:

	2014	2013
National Internal Revenue Taxes		
Withholding taxes		
Withholding Tax on Compensation	P 2,188,089	P 2,185,973
Expanded Withholding Tax	2,884,553	2,930,335
Final Withholding Tax	3,053,871	3,832,831
	P 8,126,513	P 8,949,139

8. Deficiency Tax Assessments and Tax Cases

As of December 31, 2014 and 2013, the Company did not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

EMPIRE INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

Revenue Regulation No. 19-2011

These Revenue Regulations are issued to prescribe the new BIR Forms that will be used for Income Tax filing covering and starting with Calendar Year 2011, and to modify Revenue Memorandum Circular No. 57-2011.

1. Revenues/Receipts/Fees

	2014
Underwriting income	P 116,706,203

2. Cost of Services

	2014
UNDERWRITING EXPENSES	
Agents' commission and expenses	P 33,948,132
Claims, losses paid and adjustment expenses	26,635,559
Insurance expenses	22,553,262
Total underwriting expenses	83,136,953
COST OF SERVICES	
Salaries and wages	9,206,786
Officers and employees benefits	2,525,741
Taxes and licenses	845,620
Communication and postage	544,000
Printing, stationery and supplies	429,903
Professional fees	868,846
Repairs and maintenance	274,018
	14,694,914
	P 97,831,867

3. Non-operating and Taxable Other Income

	2014
Others	P 758,797

4. Itemized Deduction

	2014
Salaries and wages	P 3,945,765
Bonus	2,841,830
Depreciation and amortization	1,611,927
Officers' and employees benefits	1,082,460
Light and water	997,330
Rental expenses	902,057
Professional fees	868,845
Transportation and travel	672,378
Communication and postage	544,001
Directors' fees and allowances	484,000
Representation and entertainment	247,585
Printing, stationary and supplies	184,244
Repairs and maintenance	117,436
Insurance	91,614
Donations and contributions	21,500
Miscellaneous expenses	8,152,153
	P 22,765,125

5. Taxes and Licenses

The details of the Company's taxes and licenses are presented in No. 5 and 6 of Revenue Regulation No.15-2010 notes.

6. Other Information

All other information prescribed to be disclosed by the BIR has been included in this note.

EMPIRE INSURANCE COMPANY

SCHEDULE OF UNDERWRITING INCOME AND EXPENSES

		Motor Car		Marine			Personal		Years Ended December 31	
	Fire	Own Damage	TPL	Cargo	Hull	Bonds	Accident	Others	2014	2013
UNDERWRITING INCOME										
Direct premiums - Net	P 52,437,623	P 45,687,330	P 3,279,283	P 1,465,742	P (68,795)	P 570,963	P 3,300,417	P 8,189,879	**P 114,862,442**	P 100,756,742
Add: Premiums assumed	24,037,385	35,899	-	5,787	-	131,500	583	3,318,271	**27,529,425**	30,149,042
Gross premiums	76,475,008	45,723,229	3,279,283	1,471,529	(68,795)	702,463	3,301,000	11,508,150	**142,391,867**	130,905,784
Less: Premiums ceded	14,428,054	579,727	-	802,880	-	14,808	489,554	6,989,988	**23,305,011**	31,990,151
Net premiums retained	62,046,954	45,143,502	3,279,283	668,649	(68,795)	687,655	2,811,446	4,518,162	**119,086,856**	98,915,633
Less: Premiums reserve for the year	23,216,694	23,164,654	1,712,530	166,402	-	389,035	1,581,104	1,335,328	**51,565,747**	42,981,812
Gross premiums on net retained	38,830,260	21,978,848	1,566,753	502,247	(68,795)	298,620	1,230,342	3,182,834	**67,521,109**	55,933,821
Add: Premiums released from reserve	23,123,345	15,972,066	1,225,676	47,870	-	618,602	1,361,715	632,538	**42,981,812**	40,535,481
Premiums earned	61,953,605	37,950,914	2,792,429	550,117	(68,795)	917,222	2,592,057	3,815,372	**110,502,921**	96,469,302
Commisions earned	2,532,973	172,419	-	244,418	887,728	7,404	147,323	2,211,017	**6,203,282**	6,545,932
Total underwriting income	64,486,578	38,123,333	2,792,429	794,535	818,933	924,626	2,739,380	6,026,389	**116,706,203**	103,015,234
UNDERWRITING EXPENSES										
Agents' commission and expenses	18,412,826	9,712,680	279,243	377,944	653,632	403,882	887,888	3,220,037	**33,948,132**	30,019,328
Claims, losses paid and adjustment expenses	10,605,970	14,963,759	281,150	-	-	20,092	484,998	279,590	**26,635,559**	32,666,827
Insurance epenses	19,716,512	2,609,250	-	227,500	-	-	-	-	**22,553,262**	21,242,914
Total underwriting expenses	48,735,308	27,285,689	560,393	605,444	653,632	423,974	1,372,886	3,499,627	**83,136,953**	83,929,069
NET UNDERWRITING INCOME	P 15,751,270	P 10,837,644	P 2,232,036	P 189,091	P 165,301	P 500,652	P 1,366,494	P 2,526,762	**P 33,569,250**	P 19,086,165

EMPIRE INSURANCE CO.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Empire Insurance Company** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2014 and 2013, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

2013

Teodoro Santamaria Canlas & Co. and Mercado, Calderon, Jaravata & Co., the independent auditors, appointed by the stockholders for the period December 31, 2014 and 2013, respectively, have examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examinations.

- Original Signed -	- Original Signed -	- Original Signed -
AUGUSTO BENEDICTO L. SANTOS	**JOSE MA. G. SANTOS**	**ROMAN L. SANTOS**
Chairman of the Board	President	Treasurer

- Original Signed-

MIRIAM W REYNA
Assistant Treasurer

Signed this 16th day of April, 2015

Note:

Secretary Certificate on Board Resolution as per attached.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYER SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
Date APR 30 2015 SDS
RECEIVED
CRISTINA C. DE GUZMAN