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EMPIRE INSURANCE COMPANY

AUDITED FINANCIAL STATEMENTS
December 31, 2015 and 2014
with Report of Independent Auditors

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, 2015 and 2014, including the additional components attached therein, 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.

M. A. Mercado & Co. and Teodoro Santamaria Canlas & Co. the independent auditors, appointed by the stockholders for the period December 31, 2015 and 2014, 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.

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

Signed this 15th day of April, 2016

LARGE TA... ASSISTANCE DIVISION
Date MAY 02 2016 TSIS
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MA. GRACIA AURORA L. CASTILLO

MAM & Co.

M. A. MERCADO & Co.
Certified Public Accountants
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6815 Ayala Avenue North
1226 Makati City, Philippines

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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, 2015 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.

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, 2015, 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, 2014 was audited by another independent auditor who expressed an unqualified opinion on those statements on April 16, 2015.

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.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner *(signing for the firm)*
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 5334717; Issued on January 6, 2015, Makati City
BIR Accreditation No. 08-003338-2-2015
Issued September 29, 2015; Valid until September 29, 2018
IC Accreditation No. SP-2015-003-O
Issued April 7, 2015; Valid until April 7, 2018
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued February 17, 2015; Valid until December 31, 2017
Firm's BIR Accreditation No. 08-006173-000-2015
Issued March 26, 2015; Valid until March 26, 2018
Firm's IC Accreditation No.F-2015-001-O
Issued April 7, 2015; Valid until April 7, 2018
SEC Accreditation No. 1533-A (Group C)
Issued February 3, 2016; Valid until February 2, 2019
Firm's SEC Accreditation No. 0320-F (Group C)
Issued February 3, 2016; Valid until February 2, 2019

April 15, 2016

Date MAY 02 2016 TSS
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MA. GRACIA AURORA L. CASTILLO

EMPIRE INSURANCE COMPANY

STATEMENTS OF FINANCIAL POSITION

	Notes		December 31 2015		2014
ASSETS					
Current assets					
Cash and cash equivalents	2,4,27	P	129,198,526	P	41,575,606
Premiums due from ceding companies	2,3,5,27		16,395,472		17,231,421
Reinsurance recoverable on losses	2,3,5,27		44,346,327		82,839,253
Premiums receivable	2,3,5,27		35,257,742		29,469,079
Commission receivable	2,3,5,27		11,831,620		11,193,584
Premiums reserve withheld by ceding companies	2,3,5,27		12,631,592		11,120,255
Salvage recoverable	2,3,5,27		863,982		977,355
Receivables	2,3,5,27		6,879,561		2,030,222
Current tax assets	2		1,965,088		1,397,492
Other current assets	2,6,27		14,501,280		15,434,815
			273,871,190		213,269,082
Non current assets					
Held-to-maturity financial assets	2,7,27		171,900,970		200,453,720
Available-for-sale financial assets	2,8,27		175,632,987		206,735,379
Property and equipment	2,3,9		6,162,821		5,225,195
Pension asset	2,18		3,445,777		4,963,867
Other non-current assets	2,10		4,447,776		1,766,517
Deferred tax asset, net	2,25		6,177,952		6,071,701
			367,768,283		425,216,379
		P	641,639,473	P	638,485,461
LIABILITIES AND EQUITY					
Liabilities					
Current liabilities					
Claims payable	2,11,27	P	57,009,940	P	73,238,687
Premiums due to reinsurers	2,12,27		54,376,807		58,635,303
Commission payable	2,13,27		29,849,845		28,208,670
Reserve for unearned premiums	2,14,27		60,008,988		51,565,747
Premiums reserve withheld for reinsurers	2,15,27		2,577,220		2,577,220
Payables	2,16,27		3,019,312		2,927,867
Other liabilities	2, 17		13,908,347		11,505,543
			220,750,459		228,659,037
Equity					
Share capital	2,19		250,000,000		250,000,000
Retained earnings	20		123,797,366		108,509,641
Unrealized gain on available-for-sale financial assets	2,8,27		45,065,520		48,723,794
Treasury stocks	2,19		(76,886)		(76,886)
Remeasurement gain	2,18		2,103,014		2,669,875
			420,889,014		409,826,424
		P	641,639,473	P	638,485,461

See Accompanying Notes to Financial Statements.

EMPIRE INSURANCE COMPANY

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Years Ended December 31 2015	2014
Underwriting income	2,3,22	P 140,767,207	P 116,706,203
Underwriting expense	2,3,22	(101,473,806)	(83,136,953)
Net underwriting income	2,22	39,293,401	33,569,250
Other income			
Investment	2,23	11,344,167	12,215,486
Gain on sale of investment	2	1,049,987	-
Gain on sale of property	2	325,202	-
Others	2	264,339	758,797
		12,983,695	12,974,283
Total underwriting and other income		52,277,096	46,543,533
Other direct costs	2,24	15,515,621	14,694,914
General and administrative expenses	2,24	25,698,959	19,923,295
Operating profit before finance income		11,062,516	11,925,324
Finance income, net			
Foreign exchange (loss) gain	2,3,27	(187,487)	42,588
Dividend income	2	7,036,937	6,977,622
		6,849,450	7,020,210
Profit before bonus		17,911,966	18,945,534
Bonus	2	(2,686,795)	(2,841,830)
Profit before income tax		15,225,171	16,103,704
Benefit from income tax	2,25	(62,554)	(1,054,115)
Net profit for the year		15,287,725	17,157,819
Other comprehensive (loss) income			
to be reclassified to profit or loss			
Net (loss) gain on available-for-sale financial assets	2,8,27	(3,676,414)	1,772,650
Tax effect		18,140	(8,863)
		(3,658,274)	1,763,787
Other comprehensive loss			
not to be reclassified to profit or loss			
Remeasurement loss	2,18	(809,802)	(1,938,031)
Tax effect		242,941	581,409
		(566,861)	(1,356,622)
Total comprehensive income for the year		P 11,062,590	P 17,564,984
Earnings per share	2,26		
Basic and diluted		P 6.12	P 6.86
Book value per share	2,26	P 168.36	P 163.93

See Accompanying Notes to Financial Statements.

EMPIRE INSURANCE COMPANY

STATEMENTS OF CHANGES IN EQUITY

Year Ended December 31, 2015

	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, 2015	P 250,000,000	P 108,509,641	P 48,723,794	P (76,886)	P 2,669,875	P 409,826,424
Net profit for the year	-	15,287,725	-	-	-	15,287,725
Other comprehensive loss	-	-	(3,658,274)	-	(566,861)	(4,225,135)
Total comprehensive income for the year						11,062,590
Balances at December 31, 2015	P 250,000,000	P 123,797,366	P 45,065,520	P (76,886)	P 2,103,014	P 420,889,014

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 (loss)	-	-	1,763,787	-	(1,356,622)	407,165
Total comprehensive income for the year						17,564,984
Balances 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

See Accompanying Notes to Financial Statements.

EMPIRE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS

	Notes		Years Ended December 31 2015		2014
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		P	15,225,171	P	16,103,704
Adjustments for:					
Depreciation and amortization	2,3,9		1,835,075		1,611,927
Retirement expense	2,18		708,288		492,238
Interest income	2,23		(11,344,167)		(12,215,486)
Dividend income	2		(7,036,937)		(6,977,622)
Foreign exchange (loss) gain	2,3,27		187,487		(42,588)
Operating loss before working capital changes			(425,083)		(1,027,827)
Changes in assets and liabilities:					
(Increase) Decrease in:					
Premiums due from ceding companies	2,3,5,27		835,949		2,379,308
Reinsurance recoverable on losses	2,3,5,27		38,492,926		(29,038,712)
Premiums receivable	2,3,5,27		(5,788,663)		(9,995,658)
Commission receivable	2,3,5,27		(638,036)		(596,077)
Premiums reserve withheld by ceding companies	2,3,5,27		(1,511,337)		(188,979)
Salvage recoverable	2,3,5,27		113,373		416,617
Receivables	2,3,5,27		(4,849,339)		16,799
Other current assets	2,6,27		583,323		68,229
Other non-current assets	2,10		(2,681,259)		(634,909)
Increase (Decrease) in:					
Claims payable	2,11,27		(16,228,747)		11,421,924
Premiums due to reinsurers	2,12,27		(4,258,496)		3,715,506
Commission payable	2,13,27		1,641,175		7,158,231
Reserve for unearned premiums	2,14,27		8,443,241		8,583,935
Premiums reserve withheld for reinsurers	2,15,27		-		(2,625,210)
Payables	2,16,27		91,445		2,043,224
Other liabilitites	2, 17		2,402,804		(2,062,801)
Cash provided by (used in) operations			16,223,276		(10,366,400)
Interest received	2,4,23		699,191		245,381
Net cash provided by (used in) operating activities			16,922,467		(10,121,019)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	2		10,644,976		11,970,105
Dividends received	2		7,036,937		6,977,622
Purchase of available-for-sale financial assets	2,8,27		(19,904,242)		(28,515,648)
Proceeds from sale of available-for-sale financial assets	2,8,27		47,330,220		-
Purchase of held-to-maturity financial assets	2,7,27		-		(892,000)
Proceeds from disposal of held-to-maturity financial assets	2,7,27		28,552,750		26,500,000
Purchase of property and equipment	2,3,9		(2,772,701)		(2,180,575)
Net cash provided by investing activities			70,887,940		13,859,504
Balance carried forward			87,810,407		3,738,485

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date MAY 02 2016 TSIS
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MA. GRACIA AURORA L. CASTILLO

EMPIRE INSURANCE COMPANY

STATEMENTS OF CASH FLOWS

	Notes		Years Ended December 31 2015		2014
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			**16,922,467**		(10,121,019)
NET CASH PROVIDED BY INVESTING ACTIVITIES			**70,887,940**		13,859,504
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2,3		**(187,487)**		42,588
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,4,27		**87,622,920**		3,781,073
CASH AND CASH EQUIVALENTS, JANUARY 1			**41,575,606**		37,794,533
CASH AND CASH EQUIVALENTS, DECEMBER 31	2,4,27	**P**	**129,198,526**	P	41,575,606

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 15, 2016.

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.

<u>Basis of Preparation</u>
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.

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

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

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized 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 adopted by the Company
The Company has applied for the first time the following applicable new and revised accounting standards. Except for these standards and amended PFRS which were adopted as of January 2015, the accounting policies adopted are consistent with those of the previous financial year.

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. The adoption of this amendment did not have any impact in the Company's financial statement since the Company's plan is non-contributory.

Annual Improvements to PFRS (2010-2012 Cycle)
Annual improvements to PFRS consist of non-urgent but necessary amendments to the following standards. Except as otherwise stated, the adoption of these amendments did not have a significant impact on the Company.

PFRS 2, *Share-based Payment – Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering a service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition must be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
This 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.

PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standards, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g. sales and gross margins) used to assess whether the segments are "similar".
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment: Revaluation Method – Proportionate Restatement of Accumulated Depreciation,* and PAS 38, *Intangible Assets: Revaluation Method – Proportionate Restatement of Accumulated Amortization*
The amendment clarifies that when an item of property, plant and equipment is revalued, treatment shall be one of the following ways:

- 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.

- 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.

PAS 24, *Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies 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.

Annual Improvements to PFRS (2011-2013 Cycle)
Annual improvements to PFRS consist of non-urgent but necessary amendments to the following standards. Except as otherwise stated, the adoption of these amendments did not have a significant impact on the Company.

PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that portfolio exception in PFRS 13 can be applied not only to the financial assets and financial liabilities, but also to the other contracts within the scope of PAS 39.

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment and owner-occupied property (i.e., property, plant and equipment).

The following standards and amendments have been issued but were not yet effective as of December 31, 2015.

Deferred

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.

Future Standards Effective January 1, 2016:

PAS 16, *Property, Plant and Equipment, and* PAS 38, *Intangible Assets – Classification 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 January 1, 2016, with early adoption permitted. These amendments are not expected to have impact to the Company since it has not used a revenue-based method to depreciate its non-current asset.

PAS 16, *Property, Plant and Equipment,* 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 effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have impact to the Company since it does not have any bearer plants.

PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)*
The amendments will allow entities to use the equity method to account for its investment in subsidiaries, joint ventures, 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 the first- time adopters of PFRS electing to use the equity method is its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendment will not have a significant impact on the Company's financial performance and financial position.

PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint venture 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 of 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.

These amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same operation and are prospectively effective for annual; periods beginning on or after January 1, 2016. These amendments will not have a significant impact on the Company's financial performance and financial position.

PFRS 14, *Regulatory Deferral Accounts*
PRFS 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. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments)
These amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirement in PFRS. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the statement of income and OCI and the statement of financial statements may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. These amendments will not have a significant impact on the Company's financial position and financial performance.

PFRS 10, *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other entities,* and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendment also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Company since the Company is not an investment entity nor does it have investment entity associates.

Annual Improvements to PFRSs (2012-2014 Cycle)
Annual improvements to PFRS consist of non-urgent but necessary amendments to the following standards. Except as otherwise stated, the adoption of these amendments did not have a significant impact on the Company.

Effective January 1, 2016:

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 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 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 Statements* (Amendments)
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 a most recent annual report.

PFRS 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 of quality corporate bonds in that currency, government bond rates must be used.

PFRS 34, *Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report "*
This 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 the greater interim financial report (e.i. in the management commentary or risk report).

Effective January 1, 2018:

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 projects and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all version 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 adoption 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 adoption of this standard will have an effect on the classification and measurement of the Company's financial assets but will have no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of adopting this standard.

The following new standard and amendments issued by the IASB has not yet been adopted by the FRSC:

IFRS 15, *Revenue from Contracts with Customers*
This standard was issued on 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 an 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, 2018 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standards on the required effective date once adopted locally.

IFRS 16, *Leases*
This standard was issued in January 2016. Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, leases will apply the single-asset model, wherein lessees will recognize the assets and the related liabilities for most leases in their balance sheets and, subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. The new standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Company is currently assessing the impact of IFRS 16 and plans to adopt the new standards 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 profit or loss and other 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 24th 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 and other comprehensive income.

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 profit or loss and other 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 profit or loss and other 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 profit or loss and other 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.

Held-to-Maturity Investments
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 statements of profit or loss and other 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 profit or loss and other 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 statements of profit or loss and other 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 statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

As at December 31, 2015 and 2014, 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 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 statement of profit or loss and other 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 profit or loss and other 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.

Share Capital
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.

Revenue Recognition
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:

Insurance Contracts and Investment Contracts

(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 24^{th} 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 property 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 statements of profit or loss and other comprehensive income:

- 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 consist 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.

Related Party Relationships and Transactions
Related party relationship exists when (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or a parent of the reporting entity. (b) An entity is related to the Company if, the entity and the Company are members of the same group, one entity is an associate or joint venture of the other entity, both entities are joint ventures of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third party, an entity is a post-employment benefit plan for the benefit of employees of the Company, the entity is controlled or joint controlled by a person who has control or joint control over the Company and a person as identified in (a) above has significant influence over the entity is a member of the key management personnel of the entity or of a parent of the

entity. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

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
The tax expense for the period comprises current and deferred tax.

Current taxes
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date where the company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income taxes
Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax relating to items recognized outside profit and loss is recognized in correlation to the underlying transaction both in OCI or directly in equity and not in the company's statements of profit or loss and other comprehensive income.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred tax for the year
Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Value-added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables that are stated with the amount of VAT included.

<u>Earnings per Share</u>
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.

<u>Book Value per Share</u>
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.

<u>Provisions</u>
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, 2015, 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, 2015 and 2014.

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 31, 2015 and 2014. 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:

	2015	2014
Cash in banks	**P 72,224,584**	P 24,545,149
Short-term financial assets	**54,046,804**	14,544,022
Cash on hand	**2,927,138**	2,486,435
	P 129,198,526	P 41,575,606

Cash in banks earn 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, 2015 and 2014 amounted to P699,191 and P245,381, respectively. *(See Note 23)*

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 P16,395,472 and P17,231,421 for the years 2015 and 2014, 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 P44,346,327 and P82,839,253 for the years 2015 and 2014, 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 P35,257,742 and P29,469,079 for the years 2015 and 2014, respectively.

Commission Receivable
This account represents uncollected commissions on treaty and facultative agreements. The Company's commissions receivable amounts to P11,831,620 and P11,193,584 for the years 2015 and 2014, 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 P12,631,592 and P11,120,255 for the years 2015 and 2014, 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 P863,982 and P977,355 for the years 2015 and 2014, respectively.

Receivables
This represents receivable from non-insurance transactions. The Company's receivables amounts to P6,879,561 and P2,030,222 for the years 2015 and 2014, respectively.

6. OTHER CURRENT ASSETS

This account consists of:

	2015	2014
Prepaid investment expenses	P 7,280,416	P 8,787,591
Documentary stamps tax receivable	3,226,022	3,194,908
Accrued investment income	2,604,503	2,877,220
Notes receivable	1,176,145	376,170
Fire service tax receivable	214,194	198,926
	P 14,501,280	P 15,434,815

7. HELD-TO-MATURITY FINANCIAL ASSETS

This account consists of:

	2015	2014
Treasury bonds	P 102,013,970	P 159,850,720
Treasury bills	42,784,000	13,500,000
Treasury notes	27,103,000	27,103,000
	P 171,900,970	P 200,453,720

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

	2015	2014
Less than one year	8.98-9.10	4.30 - 8.13
More than year	6.38-8.13	6.38 - 9.10

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

	2015	2014
At January 1	P 200,453,720	P 226,061,720
Additions	-	892,000
Maturities	(28,552,750)	(26,500,000)
At December 31	P 171,900,970	P 200,453,720

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 are measured at *fair market value* and *at cost* respectively are as follows:

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

2015	No. of Shares	**Investment at Market Value**	Investment at Cost	Unrealized gain (loss)	Deferred taxes
Equity shares					
Ayala Corporation- Preferred B	80,000	**P 41,840,000**	P 40,000,000	P 1,840,000	P 9,200
Globe Preferred Shares	40,000	**20,880,000**	20,000,000	880,000	4,400
National Reinsurance Corporation	7,999,000	**7,519,060**	13,684,987	(6,165,927)	(30,830)
Paper Industrial Corporation	787	-	3,820	(3,820)	(19)
Philippine Long Distance and Telecommunication Company	114	**234,840**	-	234,840	1,174
PLDT Series Preferred	6,670	-	66,700	(66,700)	(333)
Bank of the Philippine Islands	800,168	**67,094,087**	19,832,142	47,261,945	236,310
Meralco	66,500	**21,280,000**	19,904,242	1,375,758	6,878
		P 158,847,987	P 113,491,891	P 45,356,096	P 226,780

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

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

	2015	2014
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
Nuclear Insurance Pool, Inc.	**-**	10,000
Phil. Machinery Mgmnt. Services	**-**	20,000
PDCP	**-**	5,447
	P 16,785,000	P 16,848,872

The movement in this account is summarized as follows:

	2015	2014
At January 1	**P 206,735,379**	P 176,447,081
Additions	**19,904,242**	28,515,648
Disposition	**(47,330,220)**	-
Fair value changes	**(3,676,414)**	1,772,650
	P 175,632,987	P 206,735,379

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, 2015 and 2014 unrealized losses on some AFS are temporary.

9. PROPERTY AND EQUIPMENT

Movements in the property and equipment account in 2015 follow:

	Building and Building Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Electronic Data Processing Machine	Leasehold and Improvements	Total
Cost						
Beginning balances	P 16,511,579	P 3,130,074	P 5,150,349	P 2,686,617	P 412,968	P 27,891,587
Additions	-	123,965	2,343,175	223,717	81,844	2,772,701
Total	16,511,579	3,254,039	7,493,524	2,910,334	494,812	30,664,288
Accum. Depreciation						
Beginning balances	16,141,291	2,626,128	2,392,404	1,395,329	111,240	22,666,392
Depreciation and amortization	40,929	117,649	1,093,765	493,879	88,853	1,835,075
Total	16,182,220	2,743,777	3,486,169	1,889,208	200,093	24,501,467
Net Book Value	P 329,359	P 510,262	P 4,007,355	P 1,021,126	P 294,718	P 6,162,821

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 2,507,661	P 240,000	P 27,876,353
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	2,686,617	412,968	27,891,587
Accum. Depreciation						
Beginning balances	15,919,780	2,507,752	3,841,180	907,094	44,000	23,219,806
Depreciation and amortization	221,511	118,376	716,565	488,235	67,240	1,611,927
Retirement	-	-	(2,165,341)	-	-	(2,165,341)
Total	16,141,291	2,626,128	2,392,404	1,395,329	111,240	22,666,392
Net Book Value	P 370,288	P 503,946	P 2,757,945	P 1,291,288	P 301,728	P 5,225,195

The total cost of fully depreciated property and equipment which are still in use in the operations amounted to P7,071,835 and P4,664,723 as of December 31, 2015 and 2014, respectively.

10. OTHER NONCURRENT ASSETS

This account consists of:

	2015	2014
Deferred charges-MCIT	**P 1,260,302**	P 884,409
Real estate acquired	**1,249,280**	279,974
Verification fund	**959,181**	134,372
Taxes fund	**671,170**	206,060
Deposits	**289,941**	243,800
Security fund	**17,902**	17,902
	P 4,447,776	P 1,766,517

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 P57,009,940 and P73,238,687 for the years 2015 and 2014, respectively.

	Claims payable and unearned premiums	**Reinsurers' share of liabilities**	**Net 2015**	Claims payable and unearned premiums	Reinsurers' share of liabilities	Net 2014
Claims payable reported and loss adjustment expenses	**P 57,009,940**	**P 29,274,976**	**P 27,734,964**	P 73,238,687	P 49,167,910	P 24,070,777

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 P54,376,807 and P58,635,303 for the years 2015 and 2014, 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 P29,849,845 and P28,208,670 for the years 2015 and 2014, 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:

	2015	2014
Reserve using 24th method	P 60,008,988	P 51,565,747
Reserve using statutory rate 40%	56,435,869	47,662,260
	P 3,573,119	P 3,903,487

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 for both years 2015 and 2014.

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 P3,019,312 and P2,927,867 for the years 2015 and 2014, respectively.

17. OTHER LIABILITIES

This account consists of:

	2015	2014
Credits to client	P 4,156,587	P 2,281,849
Bonus payable	2,686,795	2,841,830
Documentary stamps tax payable	2,568,733	2,117,986
Taxes payable	2,383,989	2,730,956
Deposits	1,500,578	901,476
Unearned bond discount	344,978	375,487
SSS, Pag-ibig and Philhealth payables	228,724	137,019
Dividends payable	25,169	55,523
Service fees payable	4,439	50,711
Provident fund payable	-	4,350
Others	8,356	8,356
	P 13,908,347	P 11,505,543

18. RETIREMENT BENEFIT OBLIGATION

The Company has a retirement plan covering all its qualified employees. The plan is non-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:

	2015	2014
Present value of obligation, January 1	P 13,590,177	P 12,247,118
Current service cost	883,419	847,156
Interest cost	616,994	587,862
Benefits paid	(2,212,695)	-
Actuarial (gain) loss	(1,309,126)	(91,959)
Present value of obligation, December 31	P 11,568,769	P 13,590,177

The movement in pension assets is summarized as follows:

	2015	2014
Fair value of pension assets, January 1	P 19,377,939	P 19,641,254
Expected return on pension assets	829,530	942,780
Benefits paid	(2,212,695)	-
Actuarial gain (loss)	(2,409,068)	(1,206,095)
Fair value of pension assets, December 31	P 15,585,706	P 19,377,939

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

	2015	2014
Present value of obligation	P 11,568,769	P 13,590,177
Fair value of pension assets	15,585,706	19,377,939
Unfunded obligation	(4,016,937)	(5,787,762)
Asset ceiling	571,160	823,895
Retirement benefit obligation (asset)	P (3,445,777)	P (4,963,867)

Expenses recognized in the statements of profit or loss:

	2015	2014
Current service cost	P 883,419	P 847,156
Net interest cost	(175,131)	(354,918)
Retirement expense	P 708,288	P 492,238

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

	2015	2014
Actuarial gain (loss) on obligation	P (1,309,126)	P (91,959)
Remeasurement gain/(loss)- plan asset	2,409,068	1,206,095
Remeasurement gain/(loss) - changes in the effect of asset ceiling	(290,140)	823,895
Actuarial gain (loss) recognized during the year	P 809,802	P1,938,031

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

	2015	2014
Remeasurement gain, beginning	P 3,814,107	P 5,752,138
Actuarial gain (loss) recognized during the year	(809,802)	(1,938,031)
Remeasurement gain, ending*	P 3,004,305	P 3,814,107

*The amounts shown in the statements of changes in equity were net of income tax effect on actuarial loss. Total accumulated actuarial losses on employees' benefit obligation amounted to P2,103,014 and P2,669,875 in 2015 and 2014, respectively.

Movement in net asset is summarized below:

	2015	2014
Beginning net asset	P (4,963,867)	P (7,394,136)
Expense recognized, profit or loss	708,288	492,238
Remeasurement loss	809,802	1,938,031
Closing net asset	P (3,445,777)	P (4,963,867)

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

	2015	2014
Discount rate	5.07%	4.54%
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 financial position 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:

	2015	2014
Expected return on plan assets	P 829,530	P 942,780
Actuarial gain (loss)	(2,409,068)	(1,206,095)
Actual return on pension assets	P (1,579,538)	P (263,315)

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

	Impact on defined benefit obligation			
	2015		2014	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	3.90%	3.40%	8.60%	0.80%
Salary growth rate	3.20%	2.80%	7.90%	1.30%

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the financial position 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, 2015 is comprised of the following:

			2015
Cash and cash equivalents	45.11%	P	7,030,712
Equity instruments	0.37%		57,667
Debt instruments	29.67%		4,624,279
Unit Investment Trust Funds	28.38%		4,423,224
Mutual Funds	0.00%		
Other (Market Gains/Losses, Accrued Receivables, etc.)	-3.53%		(550,175)
	100%	P	15,585,706

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%	P	19,377,939

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	
2015	6.40

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

	Amount
Financial year	
2016	P 5,036,012
2017	-
2018	4,253,169
2019	535,957
2020	2,150,063
2021-2025	1,877,557

The distribution of eligible members as of December 31, 2015 is as follows:

	Male	Female	Combined
Number of lives covered	11.00	28.00	39.00
Average age in years	50.70	40.20	43.20
Average years of past service	13.00	13.40	13.30

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, 2015.

19. SHARE CAPITAL

This account consists of:

	2015	2014
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 twenty three (123) 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 2015 and 2014.

20. RETAINED EARNINGS

		2015		2014
At 1 January	P	108,509,641	P	91,351,822
Profit for the year		15,287,725		17,157,819
At December 31	P	123,797,366	P	108,509,641

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:

		2015		2014
Key management compensation				
Salaries and other short-term benefits	P	3,357,946	P	3,250,853
Directors' renumeration		1,306,655		1,776,054
	P	4,664,600	P	5,026,907

As of December 31, 2015 and 2014, there were no sale and purchase of insurance and investment contracts, receivables, payables and loans to key management personnel.

As of December 31, 2015 and 2014, 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:

	2015	2014
UNDERWRITING INCOME		
Direct premiums-net	**P 141,733,715**	P 114,862,442
Add: Premiums assumed	**30,598,883**	27,529,425
Gross premiums	**172,332,598**	142,391,867
Less: Premiums ceded	**30,224,427**	23,305,011
Net premiums retained	**142,108,171**	119,086,856
Less: Premiums reserve for the year	**60,008,988**	51,565,747
Gross premium on net retained	**82,099,183**	67,521,109
Add: Premiums released from reserve	**51,565,747**	42,981,812
Premiums earned	**133,664,930**	110,502,921
Commissions earned	**7,102,277**	6,203,282
Total underwriting income	**P 140,767,207**	P 116,706,203

	2015	2014
UNDERWRITING EXPENSES		
Agents' commission and expenses	**P 38,387,554**	P 33,948,132
Claims, losses paid and adjustment expenses	**38,004,885**	26,635,559
Insurance expense	**25,081,367**	22,553,262
Total underwriting expenses	**P 101,473,806**	P 83,136,953
NET UNDERWRITING INCOME	**P 39,293,401**	P 33,569,250

23. INVESTMENT INCOME

This account consists of:

	2015	2014
Income from investments in securities	**P 10,644,976**	P 11,970,105
Income from savings and time deposits	**699,191**	245,381
	P 11,344,167	P 12,215,486

24. OTHER DIRECT COSTS AND GENERAL AND ADMINISTRATIVE EXPENSES

Other direct costs consist of:

	2015	2014
Salaries and wages	**P 9,900,076**	P 9,206,786
Officers' and employees benefits	**1,697,031**	2,525,741
Taxes and licenses	**1,273,198**	845,620
Professional fees	**1,056,631**	868,846
Printing, stationery and supplies	**735,850**	429,903
Communication and postage	**547,510**	544,000
Repairs and maintenance	**305,325**	274,018
	P 15,515,621	P 14,694,914

General administrative expenses consist of:

	2015	2014
Salaries and wages	P 4,242,889	P 3,945,765
Depreciation and amortization (Note 9)	1,835,075	1,611,927
Professional fees	1,056,632	868,845
Rental expenses	1,000,643	902,057
Light and water	928,808	997,330
Transportation and travel	924,098	672,378
Representation and entertainment	787,738	247,585
Officers' and employees benefits	727,298	1,082,460
Communication and postage	547,510	544,001
Directors' fees and allowances	478,500	484,000
Printing, stationery and supplies	315,365	184,244
Repairs and maintenance	130,854	117,436
Insurance	81,519	91,614
Interest	43,322	63,589
Donations and contributions	59,366	21,500
Miscellaneous expenses	12,539,342	8,088,564
	P 25,698,959	P 19,923,295

As at December 31, 2015 and 2014, miscellaneous expenses pertain to the following:

	2015	2014
Agency expenses	P 6,090,473	P 5,527,202
Service fee	5,708,583	1,694,894
Association and pool dues	667,585	785,367
Bank service charges	63,772	57,775
Advertising and promotions	8,929	23,326
	P 12,539,342	P 8,088,564

25. BENEFIT FROM INCOME TAX

This account consists of:

		2015		2014
Current				
Corporate income tax	P	(1,205,530)	P	(939,597)
Deferred		1,142,976		(114,518)
	P	(62,554)	P	(1,054,115)

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

		2015		2014
Statutory income tax	P	4,567,551	P	4,831,111
Income tax effect on:				
Tax exempt income		(3,193,493)		(3,591,031)
Income subject to lower tax rates		(209,757)		(73,614)
Income not subject to tax		(2,426,077)		(2,093,287)
Temporary differences		56,246		(12,776)
	P	(1,205,530)	P	(939,597)

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:

		2015		2014
Deferred tax assets:				
Net operating loss carry over (NOLCO)	P	**7,523,318**	P	7,495,034
Deferred tax liability:				
Net unrealized gain on AFS		**(226,703)**		(244,843)
Unrealized foreign exchange gain		**(217,372)**		(34,258)
Remeasurement gain		**(901,291)**		(1,144,232)
	P	**6,177,952**	P	6,071,701

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 1,2014	P	6,555,437	P	(235,980)		(114,506)	P	(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		(244,843)		(34,258)		(1,144,232)	P	6,071,701
Charge to profit or loss		28,284		-		(183,114)		-		(154,830)
Charged to other comprehensive income		-		18,140		-		242,941		261,081
At December 31, 2015	**P**	**7,523,318**	**P**	**(226,703)**	**P**	**(217,372)**	**P**	**(901,291)**	**P**	**6,177,952**

The details of Net Operating Loss Carried Over (NOLCO) and its corresponding deferred tax asset as of 2015 and 2014 are as follows:

Year of Incurrence	Year of Expiration		NOLCO 2015		Deferred tax asset 2015		NOLCO 2014		Deferred tax asset 2014
2012	2015	P	**3,924,154**	P	**1,177,246**	P	3,924,154	P	1,177,246
2013	2016		**17,927,303**		**5,378,191**		17,927,303		5,378,191
2014	2017		**3,131,992**		**939,597**		3,131,992		939,597
2015	2018		**4,018,433**		**1,205,530**		-		-
			29,001,882		**8,700,564**		24,983,449		7,495,034
Expired NOLCO			**(3,924,154)**		**(1,177,246)**		-		-
Remaining NOLCO/ Deferred tax asset		P	**25,077,728**	P	**7,523,318**	P	24,983,449	P	7,495,034

26. EARNINGS PER SHARE AND BOOK VALUE PER SHARE

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

	2015	2014
Net profit	P 15,287,725	P 17,157,819
Divided by oustanding shares	2,500,000	2,500,000
	P 6.12	P 6.86

There were no potential dilutive shares in 2015 and 2014.

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

	2015	2014
Equity	P 420,889,014	P 409,826,424
Divided by oustanding shares	2,500,000	2,500,000
	P 168.36	P 163.93

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:

	2015	2014
Direct premium income	**P 141,733,715**	P 114,862,442
Reinsurance assumed	**30,598,883**	27,529,425
Reinsurance ceded	**(30,224,427)**	(23,305,011)
	P 142,108,171	P 119,086,856

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.

	2015	2014
	(in Thousands)	
Cash and cash equivalents	**P 126,271**	P 39,089
Premiums due from ceding companies	**16,395**	17,231
Reinsurance recoverable on losses	**44,346**	82,839
Premiums receivable	**35,258**	29,469
Commissions receivable	**11,832**	11,194
Premiums reserve withheld by ceding companies	**12,632**	11,120
Receivables	**6,880**	2,030
Salvage recoverable	**864**	977
Held-to-maturity financial assets	**171,901**	200,454
Available-for-sale financial assets	**175,633**	206,735
	P 602,012	P 601,138

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 P2,927,137 and P2,486,435 for the year 2015 and 2014, respectively.
- The Company's premiums and other receivables are actively monitored to avoid significant concentrations of credit risk.

As of December 31, 2015 and 2014, the aging analysis of the Company's receivables is as follows:

	Neither Past Due Nor Impaired			Past Due But	2015
	Class A	Class B	Class C	Not Impaired	**Total**
Cash and cash equivalents	P 126,271,388	-	-	-	P **126,271,388**
Premiums					
Receivable	21,495,748	5,852,488	6,880,659	1,028,847	**35,257,742**
Due from ceding companies	716,096	509,541	15,169,835	-	**16,395,472**
Reserve withheld by ceding companies	-	-	12,631,592	-	**12,631,592**
Reinsurance recoverable on losses	35,353	-	44,310,974	-	**44,346,327**
Commission receivable	2,723,309	30,601	9,077,710	-	**11,831,620**
Salvage recoverable	-	-	-	863,982	**863,982**
Receivables	38,728	165,899	6,674,934	-	**6,879,561**
Financial assets					
Held-to-maturity	171,900,970	-	-	-	**171,900,970**
Available-for-sale	175,632,987	-	-	-	**175,632,987**
	P 498,814,579	P 6,558,530	P 94,745,704	P 1,892,829	P **602,011,642**

	Neither Past Due Nor Impaired				2014
	Class A	Class B	Class C	Past Due But 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	16,122,218	-	17,231,421
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 490,401,987	P 18,591,993	P 90,280,968	P 1,864,491	P 601,139,439

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, 2015 and 2014.

	Current		Non-current	2015
	Within 6 months	6 to 12 months	1 to 5 years	Total
Payables	P 3,019,312	P -	-	P **3,019,312**
Claims payable	7,036,213	49,973,727	-	**57,009,940**
Premiums				
Due to reinsurers	11,944,123	42,432,683	-	**54,376,807**
Reserve for unearned	-	-	60,008,988	**60,008,988**
Reserve withheld for reinsurers	2,577,220	-	-	**2,577,220**
Commission payable	19,573,292	10,276,553	-	**29,849,845**
Others *(excluding tax liabilities)*	-	7,643,047	-	**7,643,047**
	P 44,150,160	P 110,326,009	P 60,008,988	P **214,485,157**

	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

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, 2015 and 2014, currency exchange rates used to translate U.S. Dollar denominated financial assets and liabilities amounted to P47.17 and P44.617, respectively.

The table below summarizes the Company's exposure to foreign exchange risk as of December 31, 2015 and 2014. Included in the table are the Company's assets at carrying amounts, categorized by currency.

		2015 USD		2015 PHP		2014 USD		2014 PHP
Cash and cash equivalents	$	261,024	P	11,646,105	$	233,696	P	10,426,810
Held-to-maturity investments		607,459		27,103,000		607,459		27,103,000
	$	868,483	P	38,749,105	$	841,155	P	37,529,810

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 2015	US $ Depreciates 2014	US $ Appreciates 2015	US $ Appreciates 2014
Effect on profit before tax	$ 868,483	$ 841,155	$ (868,483)	$ (841,155)
Effect on equity	607,938	588,809	(607,938)	(588,809)

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, 2015			
Financial assets:			
Held-to-maturity investments	P -	P 171,900,970	P **171,900,970**

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

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, 2015							
Held-to-maturity investments	Fixed at the date of investment	5-24	P 171,900,970	12,280,000	45,276,000	114,344,970	**P 171,900,970**

	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	22,552,750	63,556,000	114,344,970	P 200,453,720

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 as of December 31, 2015 and 2014.

	2015		2014	
	Effect on income statement	**Effect on Equity**	Effect on income statement	Effect on Equity
Increase in basis points (+100)	P 2,017,350	P 1,613,880	P 2,133,050	P 1,706,440
Decrease in basis points (-100)	(2,017,350)	(1,613,880)	(2,133,050)	(1,706,440)

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 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, and payable to non-customers, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

Financial Assets at FVPL
The Company's financial assets at FVPL and quoted equity securities are carried at their fair values as at December 31, 2015 and 2014. Fair value of financial assets at FVPL is based on the closing quoted prices of stock investments published by the Insurance Commission.

The following table presents the Company's assets that are measured at fair value at December 31, 2015.

	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 158,847,987	P -	P -	**P 158,847,987**

There are no financial instruments carried at fair value under Levels 2 and 3 during the year.

The following table presents the Company's assets 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**

There are no financial instruments carried at fair value under Levels 2 and 3 during the year.

For assets and liabilities that are recognized in the Company's financial statements in a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers that occurred between level 1, level 2 and level 3 during the years ended December 31, 2015 and 2014.

The Company's management determines the policies and procedures for both recurring and nonrecurring fair value measurements.

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

Categories of Financial Instruments

The carrying values and fair values of the Company's financial assets and liabilities per category are as follows:

	2015		2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets		**(in thousands)**		
Cash and cash equivalents	**P 129,199**	**P 129,199**	P 41,576	P 41,576
Premiums due from ceding companies	**16,395**	**16,395**	17,231	17,231
Reinsurance recoverable on losses	**44,346**	**44,346**	82,839	82,839
Premiums receivable	**35,258**	**35,258**	29,469	29,469
Commission receivable	**11,832**	**11,832**	11,194	11,194
Premiums reserve withheld by ceding companies	**12,632**	**12,632**	11,120	11,120
Receivables	**6,880**	**6,880**	2,030	2,030
Other current assets	**14,501**	**14,501**	15,435	15,435
Salvage recoverable	**864**	**864**	977	977
Available-for-sale investments	**158,848**	**158,848**	189,887	189,887
	P 430,755	**P 430,755**	P 401,758	P 401,758

		2015				2014		
		Carrying Amount		Fair Value		Carrying Amount		Fair Value
Liabilities								
Claims payable	P	57,010	P	57,010	P	73,239	P	73,239
Premium due to reinsurers		54,377		54,377		58,635		58,635
Commission payable		29,850		29,850		28,209		28,209
Reserve for unearned premiums		60,009		60,009		51,566		51,566
Payables		3,019		3,019		2,928		2,928
Premium reserve withheld for reinsurers		2,577		2,577		2,577		2,577
Bonuses payable (See Note 17)		2,687		2,687		2,842		2,842
Credits to clients (See Note 17)		4,157		4,157		2,282		2,282
Documentary stamps payable (See Note 17)		2,569		2,569		2,118		2,118
Fire service tax payable		399		399		415		415
	P	216,654	P	216,654	P	224,811	P	224,811

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, 2015, 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, 2015 and 2014:

	2015	2014
Networth	**P420,889,014**	P409,826,424
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, 2015 and 2014:

	2015	2014
Networth	**P420,889,014**	P409,826,424
RBC Requirement	**59,742,129**	65,849,253
RBC ratio	**705%**	622%

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, 2015, 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, 2015 and 2014:

	2015	2014
Underwriting income	P 113,719,066	P 101,254,308
VAT output	13,646,288	12,150,517

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

	2015	2014
Beginning of the year	P -	P -
Current year's purchases		
Domestic purchase of services	5,404,550	3,343,020
	5,404,550	3,343,020
Application against output VAT	(5,404,550)	(3,343,020)
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 2015 and 2014 that would require for the payment of customs duties and tariff fees.

4. Excise Tax

The Company did not have any transactions in 2015 and 2014 which are subject to excise tax.

5. Documentary Stamp Tax

The Company paid P16,038,807 and P11,451,073 as of December 31, 2015 and 2014, respectively.

6. Taxes and Licenses

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

		2015		2014
Local				
Community tax	**P**	**10,500**	P	10,500
Business taxes and others		**1,262,698**		835,120
	P	**1,273,198**	P	845,620

7. Withholding taxes

The details of total withholding taxes paid and accrued for the year ended December 31, 2015 and 2014 are as follows:

		2015		2014
National Internal Revenue Taxes				
Withholding taxes				
Expanded Withholding Tax	**P**	**3,945,311**	P	2,884,553
Final Withholding Tax		**2,836,042**		3,053,871
Withholding Tax on Compensation		**2,019,160**		2,188,089
	P	**8,800,513**	P	8,126,513

8. Deficiency Tax Assessments and Tax Cases

As of December 31, 2015 and 2014, 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.

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

	2015
Underwriting income	P 140,767,208

2. Cost of Services

	2015
UNDERWRITING EXPENSES	
Agents' commission and expenses	P 38,387,554
Claims, losses paid and adjustment expenses	38,004,885
Insurance expenses	25,081,367
Total underwriting expenses	101,473,806
COST OF SERVICES	
Salaries and wages	9,900,076
Officers and employees benefits	1,697,031
Taxes and licenses	1,273,198
Professional fees	1,056,631
Printing, stationery and supplies	735,850
Communication and postage	547,510
Repairs and maintenance	305,325
	15,515,621
	P 116,989,427

3. Non-operating and Taxable Other Income

	2015
Gain on sale of property	P 325,202
Others	264,339
	P 589,541

4. Itemized Deduction

	2015
Salaries and wages	P 4,242,889
Bonus	2,686,795
Depreciation and amortization (Note 9)	1,835,075
Professional fees	1,056,632
Rental expenses	1,000,643
Light and water	928,808
Transportation and travel	924,098
Representation and entertainment	787,738
Officers' and employees benefits	727,298
Communication and postage	547,510
Directors' fees and allowances	478,500
Printing, stationery and supplies	315,365
Repairs and maintenance	130,854
Insurance	81,519
Interest	43,322
Donations and contributions	59,366
Miscellaneous expenses	12,539,342
	P 28,385,754

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.

MAM & Co.

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E-mail: mercado_cpas@yahoo.com

REPORT OF INDEPENDENT AUDITORS

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

In compliance with SEC Memorandum Circular No. 11, series of 2008 and pursuant to Sections 43 and 143 of the Corporation Code of the Philippines and Section 5 of the Securities Regulation Code, the amount of retained earnings available for dividend declaration as at December 31, 2015 is P63,288,378 as presented in the attached Annex "A" of Empire Insurance Company.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner *(signing for the firm)*
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 5334717; Issued on January 6, 2015, Makati City
BIR Accreditation No. 08-003338-2-2015
Issued September 29, 2015; Valid until September 29, 2018
IC Accreditation No. SP-2015-003-O
Issued April 7, 2015; Valid until April 7, 2018
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued February 17, 2015; Valid until December 31, 2017
Firm's BIR Accreditation No. 08-006173-000-2015
Issued March 26, 2015; Valid until March 26, 2018
Firm's IC Accreditation No.F-2015-001-O
Issued April 7, 2015; Valid until April 7, 2018
SEC Accreditation No. 1533-A (Group C)
Issued February 3, 2016; Valid until February 2, 2019
Firm's SEC Accreditation No. 0320-F (Group C)
Issued February 3, 2016; Valid until February 2, 2019

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS
LARGE TAXPAYERS ASSISTANCE DIVISION
Date MAY 02 2016
RECEIVED
MA. GRACIA AURORA L. CASTILLO

April 15, 2016

Annex "A"

EMPIRE INSURANCE COMPANY
Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2015

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		P 108,509,641
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	15,287,725	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate / joint venture	-	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	-	
Unrealized actuarial gain	-	
Fair value adjustment (M2M gains)	-	
Fair value adjustment of Investment Property resulting to gain	-	
Adjustment due to deviation from PFRS/GAAP - gain	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the FPRS	-	
Sub-total	15,287,725	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	-	
Adjustment due to deviation from PFRS/GAAP - losses		
Deferred tax assets	-	
Effect of change in accounting for employee benefits (PAS 19)	-	
Loss on fair value adjustment of investment property (after tax)	-	
	-	
Net income actually earned during the period		15,287,725
Add(Less):		
Dividend declarations during the period	-	
Margin of solvency	(500,000)	
Legal reserve fund	(60,008,988)	
Effects of prior period adjustments	-	
Treasury shares	-	(60,508,988)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND		**P 63,288,378**

MAM & Co.

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SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

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 financial statements of Empire Insurance Company as of and for the year ended December 31, 2015, on which we have rendered the attached report, dated April 15, 2016.

In compliance with SRC Rule 68, we are stating that the Company has one hundred twenty three (123) shareholders each owning 100 or more shares as of December 31, 2015 as disclosed in Note 19 to the financial statements.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner *(signing for the firm)*
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 5334717; Issued on January 6, 2015, Makati City
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BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date MAY 02 2016 TSIS
RECEIVED
MA. GRACIA AURORA L. CASTILLO

April 15, 2016

EMPIRE INSURANCE COMPANY
SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS
IN TWO COMPARATIVE PERIODS
UNDER SRC RULE 68, AS AMENDED
DECEMBER 31, 2015

	2015	2014
ASSET MANAGEMENT		
Asset turnover	**0.02**	0.03
Fixed asset turnover	**2.68**	3.47
SOLVENCY		
Solvency ratio	**0.08**	0.08
Debt-to-equity ratio	**0.52**	0.56
Equity-to-assets ratio	**0.66**	0.64
Asset-to-equity ratio	**1.52**	1.56
Debt ratio	**0.34**	0.36
LIQUIDITY MANAGEMENT		
Current ratio	**1.92**	1.32
Quick ratio	**1.24**	0.90
PROFITABILITY RATIO		
Gross profit margin	**28%**	29%
Operating profit margin	**11%**	14%
Net profit margin	**11%**	15%
Return on equity	**4%**	4%
Return on assets	**2%**	3%

1. ASSET MANAGEMENT

a. Asset turnover ratio calculates the total revenue for every peso of assets a Company owns. There are general rule that should be kept in mind when calculating asset turnover. Asset turnover is meant to measure a Company's efficiency in using its assets. The higher the number, the better, although investors must be sure to compare a business with the same line of industry. It is fallacy to compare completely unrelated businesses. The higher a Company's asset turnover, the lower its profit margin tends to be (and vice versa).

   For every peso of assets on hand, the Company is generating 2 centavos and 3 centavos in sales as of December 31, 2015 and 2014, respectively.

b. Fixed asset turnover measures a Company's ability to generate net income from fixed assets. A higher fixed asset turnover ratio shows that the Company has been more effective in using the investment in fixed assets to generate income.

   As of December 31, 2015, and 2014, the Company's fixed assets turnover is 2.68 and 3.47, respectively.

2. SOLVENCY

a. Solvency ratio quantifies the size of the Company's after tax income, no counting non-cash depreciation expenses, as contrasted to the total debt obligations of the Company excluding deferred tax liabilities. Acceptable solvency ratios vary from industry to industry. However, as a general rule of thumb, a solvency ratio higher than 20% is considered financially sound.

b. Debt-to-equity ratio is calculated by dividing total liabilities by total equity. This ratio shows the financial flexibility and the long-term capital structure of the Company. The rule of thumb, debt equity ratio should not be more than 2:1.

c. Equity-to-asset ratio measures the proportion of Company's assets financed by the owner's equity. The equity to asset ratio of the Company indicates that each of peso of equity, the Company has .66 and .64 in assets as of December 31, 2015 and 2014, respectively.

d. Asset-to-equity ratios used as a measure of the company's leverage and long-term solvency. It compares total assets to total shareholder equity.

e. Debt ratio indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load.

f. The interest coverage ratio is used to determine how easily a Company can pay interest expenses on outstanding debt. The ratio is calculated by dividing a Company's earnings before interest and taxes (EBIT) by the Company's interest expenses for the same period. The lower the ratio interest coverage, the larger the debt burden is on the Company. Also known as interest coverage.

As of December 31, 2015 and 2014, the Company has no long-term debt.

3. LIQUIDITY MANAGEMENT

a. Current ratio is the most commonly used measure of the liquidity of a Company. This ratio measures how many pesos of current assets are available to pay one peso worth of current liabilities.

If the ratio is less than 1, current liabilities exceed current assets and the Company's liquidity is threatened. A high current ratio is a favorable condition financially because it indicates the ability to pay current liabilities from conversion of current assets into cash. The rule of thumb has been that a current ratio below 2 suggests the possibility of liquidity problems. The current ratio is current assets divided by the current liabilities.

The Company is able to cover every peso of its current obligations with 1.92 and 1.32 in current assets as of December 31, 2015 and 2014, respectively.

b. Quick ratio also known as liquid ratio considers only the liquid forms of current assets thus revealing the Company's reliability on inventory and other current assets to settle short-term debts. As of December 31, 2015 and 2014, the quick ratio of the Company is 1.24 and .90, respectively.

4. PROFITABILITY RATIO

Profitability ratios (also referred to as profit margin ratios) compare components of income with sales. They give us an idea of what makes up a Company's income and are usually expressed as a portion of each peso of sales.

a. Gross profit margin ratio indicates how much of every peso of revenues is left after cost of services.

b. Operating profit margin is a ratio that indicates how much of each peso of revenues is left over after operating expenses.

c. Net profit margin indicates how much of each peso of revenues is left over after all expenses.

d. Return on equity measures the percentage return on the actual investments made by the stockholders. As a rule of thumb, companies with return on equity significantly below 15% are doing poorly. Companies with return on equity consistently above 15% are doing well.

e. Return on assets ratio measures how efficiently profits are being generated from the assets employed. The higher the return, the more efficient management is in utilizing its asset base. As a rule of thumb, return on assets should not be less than 5%.

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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 in accordance with Philippine Standards on Auditing the financial statements of Empire Insurance Company as at and for the year ended December 31, 2015, and have issued our report thereon dated April 15, 2016. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of all effective standards and interpretations is the responsibility of the Company's management. This schedule is presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011) and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

M.A. MERCADO & CO.

MARCELINO A. MERCADO
Partner *(signing for the firm)*
CPA License No. 066885
Tax Identification No. 102-921-222
P.T.R. No. 5334717; Issued on January 6, 2015, Makati City
BIR Accreditation No. 08-003338-2-2015
Issued September 29, 2015; Valid until September 29, 2018
IC Accreditation No. SP-2015-003-O
Issued April 7, 2015; Valid until April 7, 2018
Firm's BOA/PRC Cert. of Reg. No. 5658
Issued February 17, 2015; Valid until December 31, 2017
Firm's BIR Accreditation No. 08-006173-000-2015
Issued March 26, 2015; Valid until March 26, 2018
Firm's IC Accreditation No.F-2015-001-O
Issued April 7, 2015; Valid until April 7, 2018
SEC Accreditation No. 1533-A (Group C)
Issued February 3, 2016; Valid until February 2, 2019
Firm's SEC Accreditation No. 0320-F (Group C)
Issued February 3, 2016; Valid until February 2, 2019

April 15, 2016

Date MAY 02 2016
RECEIVED
MA. GRACIA AURORA L. CASTILLO

EMPIRE INSURANCE COMPANY
Philippine Financial Reporting Standards (PFRSs)
and Interpretations
Effective as of December 31, 2015

PFRSs AND INTERPRETATIONS Effective as of December 31, 2015		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and quantitative characteristics				
PFRSs Practice Statement Management Commentary				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosure about Financial Instruments			✓
	Amendments to PFRS 7: Disclosures - Transfer of Financial Assets			✓
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 8	Operating Segments			✓
PFRS 9	Financial Instruments	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements			✓
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interest in Other Entities			✓
PFRS 13	Fair Value Measurement	✓		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories			✓
PAS 7	Statements of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period			✓
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Assets			✓
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosures of Government Assistance			✓
PAS 21	The Effect of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Cost			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements			✓
PAS 27 (Amended)	Separate Financial Statements			✓
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Finacial Assets - Effective Date and Transistion			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
	Amendments to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Intsruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interest Arising from Decommissioning , Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting under Hyperinflationary Economies			✓
IFRIC 8	Scope of IFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2 - Group and Treasury Shares Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding requiremnt.			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operations			✓
IFRIC 17	Distributions of Non-Cash Assets to Owners			✓
IFRIC 18	Transfer of Assets to Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓

PFRSs AND INTERPRETATIONS Effective as of December 31, 2015		Adopted	Not Adopted	Not Applicable
SIC-12	Consolidation - Special Purpose Entities Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Ventures			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions involving the Legal form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - website Costs			✓

CERTIFICATION

I, **MARCELINO A. MERCADO**, Managing Partner of M. A. MERCADO & CO., Certified Public Accountants, of legal age, married and a resident of Topaz St., St. Francis Homes VII, San Antonio, Biñan, Laguna, having been duly sworn on oath certify:

1. That to enable IC to take timely and appropriate remedial action, I must report to IC within 30 calendar days after discovery, the following cases:

   a. Any material findings involving fraud or error, as defined under Section 3.3 and 3.4 of Circular Letter 29-2009;

   b. Under-reserving of Incurred But Not Reported (IBNR) losses/policy reserves, the aggregate of which leads to capital deficiency/impairment.

   c. Any findings to the effect that the consolidated assets of the company, on a going-concern basis, are no longer adequate to cover the total liabilities.

   d. Material internal control weaknesses which may lead to financial reporting problems.

   e. Termination or resignation as external auditor and stating the reason therefore;

   f. Discovery of a material breach of laws or IC rules and regulations.

   g. Findings on matters of corporate governance that may require urgent action by IC.

2. That in case there are no matters to report (e.g. fraud, dishonesty, breach of laws, etc.) I shall submit directly to IC within 15 calendar days after the closing of the audit engagement a notarized certification that there is none to report.

3. That the management of **Empire Insurance Company** including its subsidiaries and affiliates, shall be informed of the adverse findings. Our report to the IC shall include pertinent explanation and/or corrective action.

4. That it is understood that our accountability is based on matters within the normal coverage of an audit conducted in accordance with generally accepted auditing standards and identified non-audit services provided herewith.

MARCELINO A. MERCADO
Affiant

FEB 09 2016

SUBSCRIBED AND SWORN before me this __ day of February 2016 at Makati City affiant exhibited to me his T.I.N. 102-921-222.

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Book No. 10
Series of 2016

ATTY. JOHN DOMINGO A. PONCE, JR.
NOTARY PUBLIC
APPOINTMENT No. M-432 / MAKATI CITY
UNTIL DECEMBER 31, 2016
PTR No. 5323682 / 01-04-2016 / MAKATI CITY
IBP No. 1019742 / 01-04-2016 / RIZAL
MCLE COMPLIANCE No. IV-0023626 / 05-29-2014
ROLL NO. 30453