

marlene@megare.net.ph

From: ICTD Submission <ictdsubmission+canned.response@sec.gov.ph>
Sent: Wednesday, 5 May 2021 1:55 pm
To: marlene@megare.net.ph
Subject: Re: AUDITED FINANCIAL STATEMENT

Dear Customer,

SUCCESSFULLY ACCEPTED
(subject to verification and review of the quality of the attached document)

Thank you.

SEC ICTD.

MEGA RE INTERNATIONAL, INC.

Room 906 Cityland 10 Tower II, 6817 Ayala Ave., Salcedo Village, Makati City

FINANCIAL STATEMENTS

December 31, 2020

PHILIPPINE CURRENCY

[Signature]
LINA CORTES LAKAMANA
Chairman of the Board

[Signature]
MARIA GEMMA L. SANTOS
Chief Operations Officer

I.T. SABADO & ASSOCIATES

Certified Public Accountants

Signed this 15th day of April 2021.



**STATEMENT OF MANAGEMENT RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **MEGA RE INTERNATIONAL, INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein; for the years ended December 31, 2020 and 2019 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

I.T. SABADO & ASSOCIATES, CPAs, the independent auditor appointed by the shareholders has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the shareholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



LINA CORTEZ LAXAMANA
Chairman of the Board



MARIA GEMMA I. SANTOS
Chief Operations Officer



JANETTE M. GALLESTRE
Chief Financial Officer

Signed this 15th day of April 2021.

**STATEMENT OF MANAGEMENT RESPONSIBILITY FOR
ANNUAL INCOME TAX RETURN**

The Management of **MEGA RE INTERNATIONAL, INC.** is responsible for all information and representations contained in the Annual Income Tax for the year ended December 31, 2020. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2020 and the accompanying Annual Income Tax Return are in accordance with the books and records of **MEGA RE INTERNATIONAL, INC.**, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the Income Tax Return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) **MEGA RE INTERNATIONAL, INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.



LINA CORTEZ LAXAMANA
Chairman of the Board



I.T. SABADO & ASSOCIATES

Certified Public Accountants

9-A-2-A Saint John St.
New Era, Quezon City
Tel: (632) 8290 8192

INDEPENDENT AUDITORS' REPORT TO ACCOMPANY INCOME TAX RETURN

The Board of Directors and Shareholders
MEGA RE INTERNATIONAL, INC.
Room 906 Cityland 10 Tower II, 6817 Ayala Ave.
Salcedo Village, Makati City


We have audited the accompanying financial statements of Mega Re International, Inc., as of and for the year ended December 31, 2020, on which we have rendered the attached report dated April 15, 2021.

In compliance with Revenue Regulations V-20, we are stating the following:

1. The taxes paid or accrued by the above Company for the year ended December 31, 2020 are shown in the Schedule of Taxes and Licenses attached to the Annual Income Tax Return.
2. No partner of our Firm is related by consanguinity or affinity to the president, manager or principal shareholders of the Company.

I.T. SABADO & ASSOCIATES, CPAs
PRC/BOA Registration No. 1324
Until September 10, 2021
BIR Accreditation No. 07-000400-003-2020
Until May 26, 2023
IC Accreditation No. F-2018-011-R
Until November 21, 2021

By:


ISAGANI T. SABADO
Managing Partner
CPA Reg. No. 078824
Until July 10, 2022
IC Accreditation No. SP-2018-020-R
Until November 21, 2021
TIN 145-707-022
PTR No. 886019
February 1, 2021
Quezon City

April 15, 2021



I.T. SABADO & ASSOCIATES

Certified Public Accountants

9-A-2-A Saint John St.
New Era, Quezon City
Tel: (632) 8290 8192

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
MEGA RE INTERNATIONAL, INC.
Room 906 Cityland 10 Tower II, 6817 Ayala Ave.
Salcedo Village, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mega Re International, Inc., which comprise the statement of financial position as at December 31, 2020, and the statement of income, statement of changes in equity and statement of cash flows for the years then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

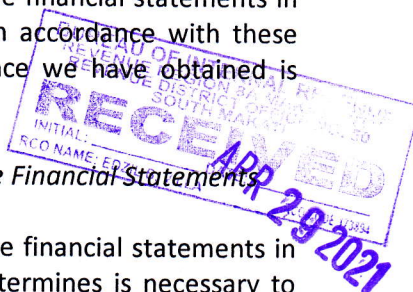
Basis for Opinion

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

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

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

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



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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



Other Matter

The company's financial statements as at and for the year ended December 31, 2019 were audited by another auditor on which an unqualified opinion dated April 2, 2020 was issued.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Notes to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Mega Re International, Inc. The information has been subjected to the auditing procedures applied in our audits 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.

I.T. SABADO & ASSOCIATES, CPAs

PRC/BOA Registration No. 1324

Until September 10, 2021

BIR Accreditation No. 07-000400-003-2020

Until May 26, 2023

IC Accreditation No. F-2018-011-R

Until November 21, 2021

By:


ISAGANI T. SABADO

Managing Partner

CPA Reg. No. 078824

Until July 10, 2022

IC Accreditation No. SP-2018-020-R

Until November 21, 2021

TIN 145-707-022

PTR No. 886019

February 1, 2021

Quezon City



April 15, 2021

MEGA RE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION

December 31, 2020

(With comparative figures for 2019)

ASSETS					
	Notes		2020		2019
Cash and cash equivalents	4	P	20,265,119	P	16,992,564
Insurance balances receivable	5		185,400,680		96,283,852
Accounts and other receivables	6		226,512		184,842
Financial assets at fair value through other comprehensive income	7		1,019,531		1,315,212
Investment in stocks	8		150,000		150,000
Property and equipment - net	9		2,355,050		2,479,568
Investment properties	10		-		494,967
Other assets	11		151,409		199,756
TOTAL ASSETS		P	209,568,301	P	118,100,761
LIABILITIES AND SHAREHOLDERS' EQUITY					
LIABILITIES					
Insurance balances payable	12	P	184,745,559	P	96,269,084
Loan payable			510,541		788,821
Income tax payable			405,529		61,823
Accounts and other payables	13		1,087,883		573,394
Total Liabilities			186,749,512		97,693,122
SHAREHOLDERS' EQUITY					
Share capital	14		10,000,000		10,000,000
Fluctuation reserve on stocks	15		569,531		444,321
Accumulated profits	16		12,249,258		9,963,318
Total Shareholders' Equity			22,818,789		20,407,639
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		P	209,568,301	P	118,100,761

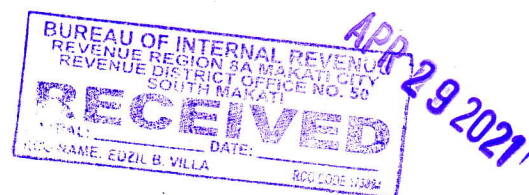
See accompanying Notes to Financial Statements.



MEGA RE INTERNATIONAL, INC.
INCOME STATEMENT
For the year ended December 31, 2020
(With comparative figures for 2019)

	Notes	2020		2019
REVENUE	P	13,390,084	P	14,067,684
DIRECT COSTS	17	658,091		319,448
GROSS INCOME		12,731,993		13,748,236
INVESTMENT AND OTHER INCOME	18	2,113,364		1,219,949
TOTAL INCOME		14,845,357		14,968,185
GENERAL AND ADMINISTRATIVE EXPENSES	19	11,125,798		12,003,236
INCOME BEFORE INCOME TAX		3,719,559		2,964,949
INCOME TAX EXPENSE	20	1,012,728		868,625
NET INCOME	P	2,706,831	P	2,096,324

See accompanying Notes to Financial Statements.



MEGA RE INTERNATIONAL, INC.
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2020
(With comparative figures for 2019)

	Note	2020		2019
Net Income	P	2,706,831	P	2,096,324
Other Comprehensive Income:				
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	6, 22	(295,681)		128,099
TOTAL COMPREHENSIVE INCOME	P	2,411,150	P	2,224,423

See accompanying Notes to Financial Statements.



MEGA RE INTERNATIONAL, INC.
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2020
(With comparative figures for 2019)

	Notes	2020		2019	
SHARE CAPITAL					
	14				
Balance at beginning of year		P 10,000,000	P	10,000,000	
Issued during the year		-		-	
Balance at end of year		10,000,000		10,000,000	
FLUCTUATION RESERVE ON STOCKS					
	15				
Balance at beginning of year		444,321		584,884	
Increase (Decrease) during the year		125,210		(140,563)	
Balance at end of year		569,531		444,321	
ACCUMULATED PROFITS					
	16				
Balance at beginning of year		9,963,318		7,866,994	
Prior period adjustments		(420,891)		-	
Net income for the year		2,706,831		2,096,324	
Balance at end of year		12,249,258		9,963,318	
TOTAL SHAREHOLDERS' EQUITY		P 22,818,789	P	20,407,639	

See accompanying Notes to Financial Statements.



MEGA RE INTERNATIONAL, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2020
(With comparative figures for 2019)

	Notes	2020		2019
CASH FLOWS FROM OPERATING ACTIVITIES :				
Net income	P	2,706,831	P	2,096,324
Adjustment for :				
Depreciation and amortization	9, 10	355,680		397,035
Unrealized gain on financial assets at fair value through other comprehensive income	7, 22	-		(268,662)
Impairment losses	19	3,961,691		2,983,748
OPERATING INCOME (LOSS) BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		7,024,202		5,208,445
Changes in Operating Assets and Liabilities				
Decrease (Increase) in:				
Insurance balances receivable	5	(93,078,519)		(46,759,698)
Accounts and other receivables	6	(41,670)		(69,169)
Other assets	11	48,347		3,392
Increase (Decrease) in:				
Insurance balances payable	12	88,476,475		49,644,931
Accounts and other payables	13	514,489		17,829
Cash provided by operations		2,943,324		8,045,730
Income tax paid		343,706		(176,579)
NET CASH PROVIDED BY OPERATING ACTIVITIES		3,287,030		7,869,151
CASH FLOWS FROM INVESTING ACTIVITIES :				
Acquisition of property & equipment	9	(189,396)		(964,286)
Disposal of property & equipment	9	47,321		-
Disposal of investment property	10	405,880		-
NET CASH USED IN INVESTING ACTIVITIES		263,805		(964,286)
CASH FLOWS FROM FINANCING ACTIVITIES :				
Loan payable		(278,280)		788,821
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,272,555		7,693,686
CASH AND CASH EQUIVALENTS AT BEG OF THE YEAR		16,992,564		9,298,878
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	P	20,265,119	P	16,992,564

See accompanying Notes to Financial Statements.



MEGA RE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020

(With comparative figures as at and for the year ended December 31, 2019)

(All amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - Organization and operation

MEGA RE INTERNATIONAL, INC. is a domestic corporation registered with the Securities and Exchange Commission on November 16, 1987 under SEC Reg. No. 146205 and primarily engaged in the business of insurance and and reinsurance broker, and to act as representative of insurance/reinsurance broker, and to act as representative of insurance/reinsurance companies and reinsurance brokers, both domestic and foreign.

The registered address of the Company is at Room 906 Cityland Tower II, 6817 Ayala Avenue, Salcedo Village, Makati City, Philippines.

The accompanying financial statements of the Company were reviewed and authorized for issue by the Board of Directors on April 15, 2021.

Note 2 - Significant accounting policies

2.1 Basis of Preparation

The financial statements have been prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI), financial assets at amortized costs, investment properties and certain property and equipment which have been measured at fair value.

The financial statements are measured in Philippine Peso, which is the Company's functional currency. All values are rounded off to the nearest peso values, unless otherwise indicated.

2.2 Statement of Compliance

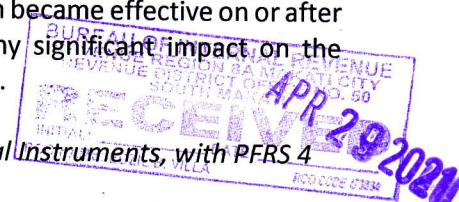
The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), issued by the Financial Reporting Standards Council (FRSC).

2.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRS, which became effective on or after January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

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

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard, before implementing the forthcoming insurance contracts standard. The amendments allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than in profit or loss, the volatility that



could arise when PFRS 9 is applied before the new insurance contracts standard becomes effective. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 from January 1, 2018 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 18, Revenue and related interpretation. The standard establishes a new five-step model that will apply, with limited exceptions, to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in provide a more structured approach to measuring and recognizing revenue.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for the incremental costs of obtaining a contact and the costs directly related to fulfilling a contract.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs.

The adoption of PFRS 15 did not have significant impact on the Company's financial statements since its revenue streams are outside the scope of PFRS 15. These include insurance revenue, investment income (including gain on sale of financial assets at fair value through other comprehensive income), commission income, fair value gains on revaluation of nonfinancial assets and foreign currency exchange gains.

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

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

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

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

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2020

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

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Effective beginning on or after January 1, 2025

- IFRS 17, *Insurance Contracts*

IFRS 17 which will replace PFRS 4, Insurance Contracts which is effective January 1, 2023 but deferred further for two (2) years by the Insurance Commission with earlier application permitted as long as IFRS 9 and IFRS 15 are also applied. It combines features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period.

- combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract;
- presents insurance service results (including presentation of insurance revenue) separately from insurance finance income or expenses; and
- requires an entity to make an accounting policy choice of whether to recognize all insurance finance income or expenses in profit or loss or to recognize some of that income or expenses in other comprehensive income.

The Company is conducting an assessment on the probable impact of this standard on its financial position and performance when and if it becomes effective.

Product Classification

Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts

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

Foreign Currency Transactions and Translations

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of the reporting period. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. All foreign exchange differences are recognized in the statement of income, except where it relates to equity securities where gains or losses are recognized in other comprehensive income.

Fair Value Measurement

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

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

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

The principal or the most advantageous market must be accessible to the Company.

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

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

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

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

- **Level 1**- Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- **Level 2**- Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable
- **Level 3**- Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable

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

For 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.

Cash and Cash Equivalents

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

Short-term Investments

Short term investments are short-term placements with maturities of more than three months but less than one year from the date of acquisition. These earn interest at the respective short-term investment rates.

Insurance Receivables

Insurance receivables are recognized on policy inception dates and measured on initial recognition at the fair value of the consideration receivable for the period of coverage. Subsequent to initial recognition, insurance receivables are measured at amortized cost. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Insurance receivables are derecognized applying the de-recognition criteria for financial assets.

Financial Instruments

Date of recognition

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

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in the case of a liability). Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss (FVPL), financial assets at fair value through other comprehensive income (FVOCI), financial assets at amortized cost and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market.

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

"Day 1" difference

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

Financial assets or financial liabilities at FVPL

This category consists of financial assets or financial liabilities that are held for trading or those designated by management as at FVPL on initial recognition. Derivative instruments, except those covered by hedge accounting relationships, are also classified under this category.

Financial assets or financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or (b) the assets or liabilities are part of a group of financial assets or liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset or financial liabilities contains an embedded derivative that would need to be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value, with changes in the fair value recorded in the statement of income.

Financial assets at FVOCI

Financial assets at FVOCI are measured at fair value. For debt securities, the effective yield component of it, as well as the impact of restatement on foreign currency-denominated debt securities, is reported in the statement of income. Interest earned on holding financial assets at FVOCI are recorded as interest income in the statement of income using the effective interest rate. Dividends earned on holding financial assets at FVOCI are recognized in the statement of income when the right to receive the payment has been established. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are reported as "Fluctuation reserve on stocks" in the equity section of the statement of financial position. The losses arising from impairment of such investments are recognized as "Impairment losses on financial assets at FVOCI" lodged under "Investment and other income". When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of income. Where the Company holds more than one investment in the same security, the cost used is determined using the weighted average method.

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

The Company's financial assets at FVOCI consist primarily of listed shares (common and preferred) in the Philippine Stock Exchange which were designated as financial assets at FVOCI upon initial recognition.

Loans and receivables

Loans and receivables are non-derivative 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 financial assets at FVPL or AFS financial assets.

After initial measurement, the loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is recorded as interest income in the statement of income. The loss arising from impairment of such loans and receivables are recognized in the statement of income. Any effects of restatement of foreign currency-denominated assets are recognized in the statement of income.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

The Company's other financial liabilities consists of insurance payables, loans payable, accounts payable and accrued expenses and other liabilities that meet the above definition.

Impairment of Financial Assets

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is 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.

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as past-due status and term.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Financial assets at FVOCI

In case of equity investments classified as financial assets at FVOCI, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement - is removed from other comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in other comprehensive income.

Investment in stock

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

Offsetting Financial Instruments

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

De-recognition 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 where:

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

Where the Company has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Investment Property

Investment property is measured initially at cost, including transaction costs. Investment property pertains to property that is held to earn rent income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. Subsequent to initial recognition, investment properties are measured at fair value.

Investment properties are derecognized either when they have been disposed or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising from de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Company statement of income.

Property and Equipment

Property and equipment, except for land and buildings, are stated at cost, net of accumulated depreciation and amortization and any impairment in value.

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

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation is calculated using the straight-line method over the estimated useful life of the corresponding asset. Leasehold improvements are amortized over the shorter of the related lease term or the estimated useful life. The estimated useful lives of items of property and equipment are as follows:

	Number of Years
Building and Improvement	20-50
Electronic and data processing (EDP) equipment	2-5
Office equipment	5
Transportation equipment	5
Furniture, fixtures and equipment	5

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

The assets' estimated 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 the items of property and equipment.

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and impairment in value are removed from the accounts and any gain or loss resulting from their disposals is credited to or charged against the current operations.

Computer Software

Cost associated with the acquisition or maintaining computer software programs are recognized as expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Company, which will generate economic benefits beyond one (1) year, are classified under property and equipment.

Expenditures which enhance or extend the performance of computer software programs beyond their original specifications are capitalized and added to the original cost of the software. Computer software development costs are recognized as assets are carried at cost less accumulated amortization. The costs are amortized using the straight-line method over their estimated useful lives of five (5) years.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that property and equipment, investment property and computer software may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Creditable Withholding Taxes (CWTs)

Creditable withholding taxes pertain to the taxes paid by the Company withheld by its counterparty for the payment of its expenses and other purchases. These CWTs are initially recorded at cost and included as part of "Other assets" in the statement of financial position.

CWTs may either be offset against income tax payable or be claimed as a refund from the taxation authorities at the option of the Company. If these CWTs are claimed as a refund, these will be recorded as a receivable under "Loans and receivables" in the statement of financial position.

At each end of the reporting period, an assessment for impairment is performed to assess the recoverability of the Company's CWTs.

Value-added Tax (VAT)

Revenues, expenses, assets and liabilities 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 taxation 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 as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other assets" or "Accounts payable and accrued expenses" in the statement of financial position.

Insurance Contract Liabilities

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged against the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Equity

Share capital represents the value of shares that have been issued at par. Proceeds and or fair value of considerations received in excess of par value, if any, are recognized as part of "Contributed surplus". The transaction costs incurred as a necessary part of completing an equity transaction are accounted for as part of the transaction and are deducted from "Contributed surplus".

Accumulated profits include all the accumulated earnings of the Company less any dividends declared.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits associated with the transaction 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:

Commission income

Commissions earned from short-duration insurance contracts are recognized as revenue over the period of contracts using the 24th method. The portion of the commissions that relates to the unexpired periods of the policies at the reporting date are accounted for as part of "Deferred reinsurance commissions" and presented in the statement of financial position.

Interest income

Interest income is recognized in the statement of income as it accrues, taking into account the effective yield of the asset. Interest income includes the amortization of any discount or premium using the straight line method.

Dividend income

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

Expense Recognition

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

General expenses

General expenses are recognized in the statement of income as they are incurred.

Leases

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

Rental income

Rental income is recognized on a straight-line basis over the term of the lease agreement.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

Income Tax

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the end of the reporting period.

Current income tax for current and prior periods, shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" in the statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as prepaid income tax included as part of "Other assets" in the statement of financial position.

Deferred income tax

Deferred income tax is provided using, the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefit of the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net

operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of MCIT and unused NOLCO can be utilized.

Deferred income tax that relates to items that are recognized (a) in other comprehensive income shall be recognized in other comprehensive income and (b) directly in equity shall be recognized directly in equity account.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Movements in the deferred income tax assets and liabilities arising from changes in tax rates are credited to or charged against income or loss for the period.

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

Provisions

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events After the End of the Reporting Date

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

Note 3 - Significant accounting estimates and judgments

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

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

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognized in the financial statements.

Classification of financial assets

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

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

Distinction between property and equipment and investment property

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

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

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of financial assets at FVOCI

The Company determines that financial assets at FVOCI are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than twelve months for equity securities. In addition, the Company evaluates

among other factors, the normal volatility in share price for quoted securities, and the future cash flows and the discount factors for unquoted securities. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

Estimation of allowance for impairment losses on receivables

The Company maintains an allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the debtor, the debtor's payment behavior and known market forces. The Company reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates.

Estimation of useful lives of property and equipment and computer software

The Company reviews annually the estimated useful lives of property and equipment and computer software based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of property and equipment would increase recorded depreciation and amortization expense and decrease the related asset accounts.

Evaluation of impairment of property and equipment, and computer software

The Company assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the 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 expected historical or projected future operating results;
- significant changes in the manner of use of the assets; and
- significant negative industry or economic trends.

Note 4 - Cash and cash equivalents

This account consists of:

	2020	2019
Cash on hand and in banks	8,036,414	9,029,322
Time deposits	12,228,705	7,963,242
	20,265,119	16,992,564

Cash in banks earn interest at the respective bank deposit rates. Time deposit are placements made for varying periods of up to three months depending on the immediate cash requirements of the company and earn interest at respective time deposits rates.

Note 5 - Insurance balances receivable

This account consists of:

	2020	2019
Due from ceding companies	82,812,795	80,497,343
Due from reinsurers	102,587,885	15,786,509
Total	185,400,680	96,283,852
Less: Allowance for uncollectible accounts	-	-
	185,400,680	96,283,852

Note 6 - Accounts and other receivables

This account consists of:

	2020	2019
Other receivables	205,512	184,842
Advances to officers and employees	21,000	-
	226,512	184,842

Note 7 - Financial assets at fair value through other comprehensive income

The carrying values of financial assets at fair value through other comprehensive income have been determined as follows:

	2020	2019
At January 1	1,315,212	1,037,113
Additions	-	-
Disposals	-	-
Fair value adjustments	(295,681)	278,099
At December 31	1,019,531	1,315,212

Fair value adjustment for the year is presented as unrealized gain (loss) on financial assets at fair value through other comprehensive income in the statement of comprehensive income while its accumulated balance is presented as part of equity in the statement of financial position.

Note 8 - Investment in stocks

Investment in stocks consists of equity securities which are not quoted in stock market

Note 9 - Property and equipment - net

Details of property and equipment as at December 31, are as follows:

	Land	Office Equipment	Building & Improvement	Furniture & Fixture	Transportation Equipment	Other Equipment	Total
Cost							
At January 1, 2019	1,388,007	1,324,465	5,706,894	218,508	626,785	78,308	9,342,966
Additions	-	-	-	-	964,286	-	964,286
At December 31, 2019	1,388,007	1,324,465	5,706,894	218,508	1,591,071	78,308	10,307,253
Additions	-	155,690	-	33,706	-	-	189,396
Disposals	-	-	-	-	(626,785)	-	(626,785)
At December 31, 2020	1,288,007	1,480,155	5,706,894	252,214	964,286	78,308	9,869,864
Accumulated depreciation							
At January 1, 2019	-	1,187,933	5,601,297	210,585	474,107	78,299	7,552,221
Charges	-	48,443	105,592	-	121,429	-	275,464
At December 31, 2019	-	1,236,376	5,706,889	210,585	595,536	78,299	7,827,685
Charges	-	68,288	-	5,448	192,857	-	266,593
Disposals	-	-	-	-	(579,464)	-	(579,464)
At December 31, 2020	-	1,304,664	5,706,889	216,033	208,929	78,299	7,514,814
Net book values							
December 31, 2019	1,388,007	88,089	5	7,923	995,535	9	2,479,568
December 31, 2020	1,388,007	175,491	5	36,181	755,357	9	2,355,050

Depreciation and amortization for the years ended December 31, 2020 and 2019 amounting to P266,593 and P275,464 are presented under general and administrative expenses.

Note 10 - Investment properties

Details of investment properties as at December 31, are as follows:

	2020	2019
At January 1	494,967	3,473,459
Additions	-	-
Disposals	(494,967)	-
Accumulated depreciation	-	(2,978,492)
At December 31	-	494,967

Note 11 - Other assets

This account consists of:

	2020	2019
Prepayments	141,809	169,500
Deposits	9,600	3,600
Input tax	-	26,656
	151,409	199,756

Note 12 - Insurance balances payable

This account consists of:

	2020	2019
Due to reinsurers	82,637,602	83,202,597
Due to ceding companies	102,107,957	13,066,487
	184,745,559	96,269,084

Note 13 - Accounts and other payables

This account consists of:

	2020	2019
Accounts payable	921,605	409,693
Withholding taxes payable	82,491	9,292
Deferred output vat	51,631	51,631
VAT payable	32,156	26,778
Rental deposit	-	76,000
	1,087,883	573,394

Note 14 - Share capital

Details of the Company's share capital are as follows:

	2020		2019	
	No. of Shares	Amount	No. of Shares	Amount
Authorized share capital – P100 par value				
Balance at beginning of year	100,000	10,000,000	100,000	10,000,000
Increase during the year	-	-	-	-
Balance at end of year	100,000	10,000,000	100,000	10,000,000
Issued				
Balance at beginning of year	100,000	10,000,000	100,000	10,000,000
Issued during the year	-	-	-	-
Balance at end of year	100,000	10,000,000	100,000	10,000,000

Note 15 - Fluctuation reserve on stocks

The following shows the movement in fluctuation reserve on stocks:

	2020	2019
Balance at beginning of year	444,321	584,884
Increase (decrease) in fair value	(295,681)	128,099
Adjustments	420,891	(268,662)
Balance at end of year	569,531	444,321

Note 16 - Accumulated profits**Prior period adjustments**

Prior period adjustments amounting to P420,891, pertains to fluctuation reserve on stocks which should have been recorded as P865,212 instead of P444,321.

Note 17 - Direct costs

This account consists of:

	2020	2019
Transportation expense	238,529	165,421
Depreciation	192,857	-
Communication and postage	136,952	64,532
Representation and entertainment	89,753	89,495
	658,091	319,448

Note 18 - Investment and other income

This account consists of:

	2020	2019
Gain on forex	796,551	695,631
Gain on sale of property and equipment	623,890	-
Miscellaneous income	353,966	4,787
Rent income	240,000	450,000
Interest income	86,576	57,522
Dividend income	12,381	12,009
	2,113,364	1,219,949

Note 19 - General and administrative expenses

This account consists of:

	2020	2019
Impairment loss	3,961,691	2,983,748
Salaries and wages	3,073,879	2,737,600
Bonus	440,800	489,400
Communication, light and water	377,187	276,385
Retirement	375,000	2,439,655
Professional fees	313,000	346,000
Taxes and licenses	269,766	307,473
Employee benefits	262,000	530,866
Dues and subscription	211,487	149,255
SSS, PHIC and HDMF contribution	170,997	147,384
Depreciation	162,823	397,035

	2020	2019
Bank charges	136,363	86,444
Insurance	125,353	88,515
Repairs and maintenance	72,192	84,184
Office supplies	61,686	114,158
Donation	4,590	15,490
Seminars and trainings	-	74,731
Miscellaneous	1,106,984	734,913
	11,125,798	12,003,236

Note 20 - Current and deferred taxes

Income tax expense for the years ended December 31 is composed of:

	2020	2019
Regular corporate income tax (27.5%)	995,666	868,625
Final tax	17,062	-
	1,012,728	868,625

The reconciliation of the tax on pretax income (loss) computed at the statutory rate to tax expense is shown below:

	2020	2019
Tax on pretax income (27.5%)	1,022,879	889,485
Add (deduct) tax effects of:		
Non-deductible expense		
Income subject to lower income tax rate	(6,746)	(17,258)
Nontaxable income	(3,405)	(3,603)
	1,012,728	868,625

Note 21 - Supplementary information required by the Bureau of Internal Revenue

On October 10, 2007, Revenue Regulations (R.R.) No 12 was signed, amending certain provisions of R.R.No.9-98 relative to the due date within which to pay MCIT imposed on domestic corporation and resident foreign corporations. These revenue regulations require the quarterly payment of MCIT. The quarterly MCIT payments shall be creditable against the tax that will be due at the end of the taxable year whether it be RCIT or MCIT. The regulations took effect beginning on the income tax return for fiscal quarter ending September 30, 2007.

In compliance with the requirements set forth by RR15-2010 hereunder are the information on taxes and license fees paid or accrued during the taxable year.

Output Value Added Tax (VAT)

The Company is a VAT-registered company with VAT output tax declaration of P1,445,249 for the year based on the commissions collected amounting to P12,043,740.

The Company has no zero-rated/exempt sales for the year 2020.

Input VAT

The Company has claimed VAT input amounting to P105,734 for the year 2020.

Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

	Amount
At source	406,310
Compensation	323,353
	729,663

Taxes and Licenses

This account consists of:

	Amount
Business permit	164,135
Realty tax	52,789
Insurance commission supervision fee	25,250
Insurance commission filing fee	15,150
Community tax certificate	7,492
Barangay clearance	3,850
BIR annual registration fee	500
Other fees	600
	269,766

Note 22 - Unrealized loss on financial assets at fair value through other comprehensive income

This account consists of:

	2020	2019
Fair market value, ending	1,019,531	1,315,212
Fair market value, beginning	(1,315,212)	(1,187,113)
	(295,681)	128,099

Note 23 - Management of insurance and financial risks

Governance Framework

The primary objective of the Company's risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failure to exploit opportunities. The company recognizes the importance of having efficient and effective risk management systems in place.

Regulatory Framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains appropriate solvency positions to meet liabilities arising from claims and that the risk levels are at acceptable levels. The operations of the Company are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g.,

capital adequacy to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise).

Financial Risks

The company is exposed to financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and market risk. These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company manages the level of credit risk by setting up exposure limits for each counterparty of group of counterparties, and industry segments; right of offset where counterparties are both debtors and creditors; guidelines on obtaining collaterals and guarantees; reporting of credit risk exposures; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

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

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. Commissions due to intermediaries are netted off against amounts receivables from them to reduce the risk of doubtful accounts.

The credit quality of the financial assets was determined as follows:

a. Cash and cash equivalent

These are classified as investment grade. These are deposited, placed or invested in foreign and local banks belonging to the top banks in the Philippines in terms of resources and profitability.

b. Insurance and other loans and receivables

The Company uses a credit rating concept based on the borrowers overall credit worthiness. Investment grade is given to borrowers and counterparties having good standing in terms of credit and paying habits and their outstanding account balance does not exceed 30% of their total production. Below investment grade is given to borrowers and counterparties having low standing in terms of credit and paying habits and their outstanding balance exceeds 50% of their total production.

c. Debt securities

These are classified as investment grade. The government debt securities are issued by local government authority and are considered as risk-free debt securities.

d. Equity securities

Listed equity shares are classified as investment grade. Unlisted equity shares are classified as non-investment grade.

The Company did not have any significant concentration of credit risk with a single counterparty or group of counterparties, geographical and industry segments as of December 31, 2019 and 2018.

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in arising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

The major liquidity risk confronting the Company is the potential daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company manages liquidity risk by specifying minimum proportion of fund to meet emergency calls; specifying the sources of funding and the events that would trigger the plan; determining concentration of funding sources; reporting of liquidity risk exposure; monitoring compliance with liquidity risk policy and review of liquidity risk policy for pertinence and changing environment.

It is unusual for a company primarily transacting insurance business to predict the requirement of funding with absolute certainty as theory of probability is applied on insurance contracts to ascertain the likely provisions and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are thus based on management's best estimate based on statistical techniques and past experience.

Market Risk

Market risk is the risk of change in fair value of financial instruments from fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and the market prices (price risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Company structure levels of market risk it accepts through a market risk policy that determines what constitutes market risk for the Company; basis used to fair value financial assets and liabilities; asset allocation and portfolio limit structure; diversification benchmarks by type of instrument; sets out the net exposure limits by each counterparty or group of counterparties, reporting of market risk exposure and breaches; and monitoring compliances with market risk policy and review of market risk policy for pertinence and changing environment.

(a.) Currency Risk

The Company's principal transactions are carried out in Philippines Peso and its exposure to foreign exchange risk arises primarily with respect to the US Dollar, as it deals with foreign reinsurers in its settlement of its obligations and receipts of any claim reimbursement.

The Company's financial assets are denominated in the same currencies as its insurance liabilities, which mitigate the foreign currency exchange rate risk. Thus, the main foreign exchange risk arises from recognized assets and liabilities denominated in currencies other than those in which insurance liabilities are expected to be settled.

(b.) Interest Rate Risk

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

(c.) Price Risk

The Company's price risk exposure at year-end relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices, principally, equity securities.

Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plan, and limits on investment in each sector and market.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on equity (due to changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Note 24 - Related party transaction

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

The Company's related parties include its key management and shareholders.

Note 25 - Contingencies

The Company operates in the insurance industry and has various contingent liabilities arising in the ordinary conduct of business, which are either pending decision by the courts or being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, the eventual liability under these lawsuits or claims, if any, will not have material or adverse effect on the Company's financial position and results of operations.

I.T. SABADO & ASSOCIATES

Certified Public Accountants

9-A-2-A Saint John St.
New Era, Quezon City
Tel: (632) 8290 8192

SUPPLEMENTAL WRITTEN STATEMENT

The Board of Directors and Shareholders

MEGA RE INTERNATIONAL, INC.

Room 906 Cityland 10 Tower II, 6817 Ayala Ave.
Salcedo Village, Makati City


We have examined the Financial Statements of Mega Re International, Inc. for the year ended December 31, 2020, on which we have rendered the attached report dated April 15, 2021.

In compliance with SRC Rule 68, We are stating that the said company has a total number of **nine (9)** shareholders owning one hundred (100) or more shares each.

I.T. SABADO & ASSOCIATES, CPAs

PRC/BOA Registration No. 1324
Until September 10, 2021
BIR Accreditation No. 07-000400-003-2020
Until May 26, 2023
IC Accreditation No. F-2018-011-R
Until November 21, 2021

By:


ISAGANI T. SABADO
Managing Partner
CPA Reg. No. 078824
Until July 10, 2022
IC Accreditation No. SP-2018-020-R
Until November 21, 2021
TIN 145-707-022
PTR No. 886019
February 1, 2021
Quezon City

April 15, 2021

