Aon Insurance and Reinsurance Brokers Philippines, Inc.
(A Wholly Owned Subsidiary of Aon Holdings, B.V.)

Financial Statements
December 31, 2021 and 2020

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Aon Insurance and Reinsurance Brokers Philippines, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Aon Insurance and Reinsurance Brokers Philippines, Inc. (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 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 operations, or has no realistic alternative but to do so.

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

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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 procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required Under Revenue Regulations 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 15-2010 in Note 23 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 Aon Insurance and Reinsurance Brokers Philippines, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-073-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8854360, January 3, 2022, Makati City

March 29, 2022

AON INSURANCE AND REINSURANCE BROKERS PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Aon Holdings, B.V.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱332,955,062**	₱366,024,601
Trade receivables (Note 5)	**537,937,209**	571,570,753
Other receivables (Note 6)	**3,421,581**	13,177,323
Other current assets (Note 6)	**142,123,220**	75,967,966
Total Current Assets	**1,016,437,072**	1,026,740,643
Noncurrent Assets		
Property and equipment - net (Note 8)	**63,868,024**	72,724,298
Right-of-use asset (Note 9)	**97,445,530**	112,831,664
Deferred tax assets - net (Note 16)	**47,831,519**	67,721,272
Refundable deposits	**15,422,274**	21,542,263
Financial asset at FVOCI (Note 10)	**6,000,000**	5,000,000
Intangible asset (Note 7)	**12,998,720**	18,569,600
Total Noncurrent Assets	**243,566,067**	298,389,097
	₱1,260,003,139	₱1,325,129,740
LIABILITIES AND EQUITY		
Current Liabilities		
Due to insurance companies (Note 11)	**₱6,497,045**	₱49,596,895
Accounts payable and accrued expenses (Note 12)	**317,871,370**	285,597,592
Dividends payable (Note 13)	–	157,500,000
Lease liability – current portion (Note 9)	**13,410,447**	11,451,454
Total Current Liabilities	**337,778,862**	504,145,941
Noncurrent Liabilities		
Net pension liability (Note 15)	**65,633,111**	82,972,075
Lease liability – net of current portion (Note 9)	**115,884,315**	129,365,551
Total Noncurrent Liabilities	**181,517,426**	212,337,626
Total Liabilities	**519,296,288**	716,483,567
Equity		
Capital stock (Note 13)	**215,180,000**	215,180,000
Additional paid-in capital	**9,920,000**	9,920,000
Other reserves (Notes 10 and 15)	**(20,336,826)**	(42,749,364)
Retained earnings (Notes 13)	**535,943,677**	426,295,537
Total Equity	**740,706,851**	608,646,173
	₱1,260,003,139	₱1,325,129,740

See accompanying Notes to Financial Statements.

AON INSURANCE AND REINSURANCE BROKERS PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Aon Holdings, B.V.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2021	2020
REVENUE (Note 2)		
Brokerage	**₱1,102,152,824**	₱931,757,789
Fees	**208,789,820**	202,780,714
	1,310,942,644	1,134,538,503
EXPENSES		
Salaries and benefits (Notes 15 and 17)	**428,636,247**	356,840,564
Management, technical and royalty fees (Note 17)	**347,891,891**	327,578,699
Depreciation and amortization (Notes 7, 8 and 9)	**34,240,164**	34,097,277
Insurance	**20,764,928**	2,276,922
Rent (Note 19)	**16,413,322**	16,756,230
Taxes and licenses	**13,577,039**	8,621,730
Communications, light and water	**10,187,216**	12,889,461
Professional fees	**5,728,488**	4,323,814
Travel and transportation	**2,196,319**	4,732,793
Scholarship and training	**2,108,857**	243,386
Supplies	**1,224,250**	1,696,666
Repairs and maintenance	**540,059**	2,342,817
Entertainment, amusement and recreation	**334,363**	435,944
Others	**10,939,445**	49,520,715
	894,782,588	822,357,018
OTHER INCOME (EXPENSES)		
Foreign currency exchange gain (loss) – net	**9,211,773**	(13,415,962)
Interest income (Note 4)	**888,158**	1,518,787
Provision for impairment losses - net (Note 5)	–	(11,078,820)
Bank and other financing charges	**(188,117)**	(160,275)
Interest expense (Notes 9 and 15)	**(12,249,103)**	(14,043,627)
Other income (Note 17)	**72,608,404**	51,393,827
	70,271,115	14,213,930
INCOME BEFORE INCOME TAX	**486,431,171**	326,395,415
PROVISION FOR INCOME TAX (Note 16)	**124,783,031**	98,116,879
NET INCOME	**₱361,648,140**	₱228,278,536

See accompanying Notes to Financial Statements.

AON INSURANCE AND REINSURANCE BROKERS PHILIPPINES, INC.
(A Wholly-Owned Subsidiary of Aon Holdings, B.V.)

STATEMENTS OF COMPREHENSIVE INCOME

	December 31	
	2021	2020
NET INCOME	**₱361,648,140**	₱228,278,536
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will be recycled to profit and loss:		
Fair value gain (loss) on financial assets at FVOCI (Note 10)	**1,000,000**	(500,000)
Items that will not be recycled to profit and loss:		
Actuarial loss on defined benefit obligation (Note 15)	**19,935,574**	(3,156,473)
Actuarial gain (loss) on defined contribution	**8,614,477**	(5,158,732)
Income tax relating to actuarial loss (Notes 15 and 16)	**(7,137,513)**	2,494,562
	21,412,538	(5,820,643)
	22,412,538	(6,320,643)
TOTAL COMPREHENSIVE INCOME	**₱384,060,678**	₱221,957,893

See accompanying Notes to Financial Statements.

AON INSURANCE AND REINSURANCE BROKERS PHILIPPINES, INC.
(A Wholly-Owned Subsidiary of Aon Holdings, B.V.)

STATEMENTS OF CHANGES IN EQUITY

			Other Reserves			
	Capital Stock (Note 13)	**Additional Paid-in Capital**	**Unrealized Gain on Financial Asset at FVOCI** (Note 10)	**Actuarial Losses on DBO and DC** (Note 15)	**Retained Earnings** (Notes 13 and 20)	**Total**
As at January 1, 2021	**₱215,180,000**	**₱9,920,000**	**₱2,925,000**	**(₱45,674,364)**	**₱426,295,537**	**₱608,646,173**
Net income	**–**	**–**	**–**	**–**	**361,648,140**	**361,648,140**
Other comprehensive income	**–**	**–**	**1,000,000**	**21,412,538**	**–**	**22,412,538**
Total comprehensive income	**–**	**–**	**1,000,000**	**21,412,538**	**361,648,140**	**384,060,678**
Cash dividends (Note 13)	**–**	**–**	**–**	**–**	**(252,000,000)**	**(252,000,000)**
As at December 31, 2021	**₱215,180,000**	**₱9,920,000**	**₱3,925,000**	**(₱24,261,826)**	**₱535,943,677**	**₱740,706,851**
As at January 1, 2020	₱215,180,000	₱9,920,000	₱3,425,000	(₱39,853,721)	₱373,017,001	₱561,688,280
Net income	–	–	–	–	228,278,536	228,278,536
Other comprehensive income	–	–	(500,000)	(5,820,643)	–	(6,320,643)
Total comprehensive income	–	–	(500,000)	(5,820,643)	228,278,536	221,957,893
Cash dividends (Note 13)	–	–	–	–	(175,000,000)	(175,000,000)
As at December 31, 2020	₱215,180,000	₱9,920,000	₱2,925,000	(₱45,674,364)	₱426,295,537	₱608,646,173

See accompanying Notes to Financial Statements

AON INSURANCE AND REINSURANCE BROKERS PHILIPPINES, INC.
(A Wholly-Owned Subsidiary of Aon Holdings, B.V.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱486,431,171**	₱326,395,415
Adjustments for:		
Depreciation and amortization (Notes 7, 8 and 9)	**34,240,164**	34,097,277
Net unrealized foreign exchange (gain) loss	**(12,857,736)**	17,215,748
Net change in pension obligation (Note 15)	**2,596,610**	6,257,467
Interest income (Note 4)	**(888,158)**	(1,518,787)
Interest expense (Note 9)	**9,593,997**	10,512,835
Operating income before working capital changes	**519,116,048**	392,959,955
Decrease (increase) in:		
Trade receivables	**35,358,303**	(22,095,492)
Other current assets	**(65,718,102)**	(65,858,768)
Other receivables	**9,815,518**	7,061,968
Refundable deposits	**6,119,989**	2,113,258
Increase (decrease) in:		
Due to insurance companies	**(39,863,127)**	42,263,889
Accounts payable and accrued expenses	**41,531,899**	68,093,745
Net cash generated from operations	**506,360,528**	424,538,555
Interest received	**888,158**	1,518,787
Income tax paid (including CWTs applied)	**(112,030,791)**	(78,606,532)
Net cash provided by operating activities	**395,217,895**	347,450,810
CASH FLOWS FROM INVESTING ACTIVITY		
Acquisition of property and equipment (Note 8)	**(4,426,876)**	(3,357,696)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of principal portion of lease liability (Note 9)	**(21,116,240)**	(20,110,675)
Dividends paid (Notes 13 and 20)	**(409,500,000)**	(135,000,000)
Cash used in financing activities	**(430,616,240)**	(155,110,675)
EFFECT OF CHANGE IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**6,755,682**	(5,984,387)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(33,069,539)**	182,998,052
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**366,024,601**	183,026,549
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱332,955,062**	₱366,024,601

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Aon Insurance and Reinsurance Brokers Philippines, Inc. (the Company), is a licensed insurance and reinsurance broker, for life and nonlife insurance. The Company was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on June 26, 1995.

The Company's principal place of business is 8th Floor City Gate (Makati North Gateway), 6796 Ayala Ave. cor. Salcedo St., Legaspi Village, Makati City.

The Company is a wholly-owned subsidiary of Aon Holdings B.V., a private company under Dutch law having its official seat in Rotterdam and its office address at (3063ED) Rotterdam, Admiraliteitskade, The Netherlands.

The ultimate parent company is Aon Plc., a Company domiciled in Metropolitan Building, James Joyce Street, Dublin 1, Ireland.

The accompanying financial statements of the Company were authorized for issue by the Board of Directors (BOD) on March 29, 2022.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on the historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) which has been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is also the Company's functional currency. All amounts are rounded off to the nearest Peso, unless otherwise indicated.

Statement of Compliance
The accompanying financial statements have been prepared for submission with the Bureau of Internal Revenue (BIR) and the Philippine Securities and Exchange Commission (SEC) in compliance with Philippine Financial Reporting Standards (PFRS).

New Standards, Interpretations and Amendments
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective in 2021. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Company.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

The Company adopted the amendment beginning April 1, 2021. The amendments did not expected to have a significant impact on the Company.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

Standards Issued but not yet Effective

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 will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

- Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the FRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

These amendments are not applicable to the Company since it is not engaged in providing insurance nor issuing insurance contracts.

Deferred effectivity

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

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

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

Current versus Non-current Classification

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

(a) Expected to be realized or intended to be sold or consumed in normal operating cycle;
(b) Held primarily for the purpose of trading;
(c) Expected to be realized within twelve months after the reporting period; or
(d) 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:

(a) It is expected to be settled in normal operating cycle;
(b) It is held primarily for the purpose of trading;
(c) It is due to be settled within twelve months after the reporting period; or
(d) 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
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 Parent 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 nonfinancial 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 assets 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.

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

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

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

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

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term rates.

Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The business model determines whether cash flows will result from collecting contractual cash flow, selling the financial assets, or both. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under PFRS 15.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments) (FVOCI with recycling)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) (FVOCI with no recycling)
- Financial assets at fair value through profit or loss (FVPL)

Financial assets at amortized cost (debt instruments)
This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes "cash and cash equivalents", "trade receivables" and "other receivables".

Financial assets at FVOCI (equity instruments)
At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading.

Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in "Unrealized gain on financial assets at FVOCI" in the statement of financial position. Where the asset is disposed of, the cumulative gain or loss previously recognized in "Unrealized gain on financial assets at FVOCI" is not reclassified to profit or loss, but is reclassified to Retained earnings.

Included under this category is the Company's investment in golf club share (Notes 9 and 17).

As of December 31, 2021 and 2020, the Company has no financial assets under FVPL categories.

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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.

Day 1 difference
Where the transaction price in a non-active market is different to 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 markets, the Company recognizes the difference between the

transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases not observable data is used, the difference between transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Impairment
The Company recognizes an allowance for ECLs for debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company applies a simplified approach in calculating ECLs of its receivables. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment (see Note 3).

The Company considers receivable in default when contractual payments are over 360 days past due. However, in certain cases, the Company may also consider a receivable to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Other Current Assets
Other current assets pertain to the resources controlled by the entity as a result of past transactions and events and from which future economic benefits are expected to flow to the entity. These assets are held by the Company's for consumption within the Company's operating cycle. Creditable withholding tax (CWT) is available for offset against income tax payable in future periods. Prepayments are amortized equally based on term of the transactions.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing less accumulated depreciation and amortization and any accumulated impairment in value.

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

Depreciation and amortization of property and equipment commences once the property and equipment are available for use. Depreciation is calculated on a straight-line basis over the estimated useful lives (EUL) of the individually significant components of property and equipment.

The EUL of the components of property and equipment are as follows:

	Year
Furniture, fixtures and equipment	4 to 10
Electronic data processing (EDP) equipment	4 to 5
Transportation equipment	4 to 5
Leasehold improvements	10 or lease term whichever is shorter

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

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

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in an asset purchase agreement is the fair value as at the date of acquisition.

Subsequently, intangible assets are measured at cost less accumulated amortization and provision for impairment loss, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful life of intangible assets is assessed as either finite or indefinite.

The estimated useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized over their estimated useful lives on a straight line basis. Periods and method of amortization for intangible assets with finite useful lives are reviewed annually or earlier when an indicator of impairment exists.

The estimated useful life of intangible assets is 7 years

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Review intangible assets that are being amortized for impairment whenever events or changes in circumstance indicate that their carrying amount may not be recoverable. There are no indications that the carrying values of amortizable intangible assets are impaired as of December 31, 2020.

Impairment of Nonfinancial Assets
At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the

recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash generating unit). An impairment loss is charged against profit or loss in the year in which it arises.

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

<u>Equity</u>
Paid-in Capital
Capital stock is measured at par value for all shares issued. When the Company issues shares in excess of par, the excess is recognized as additional paid-in capital (APIC). Incremental costs incurred directly attributable to the issuance of new shares are treated as deduction from APIC.

Retained Earnings
Retained earnings represent accumulated earnings of the Company, net of dividends declared.

Other Reserves
Other reserves represent the unrealized gain on FVOCI recording the difference between acquisition cost and fair value of financial assets. This covers also the actuarial losses on defined benefit obligation which is recognized outright in OCI.

<u>Revenue Recognition</u>
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is an agent in its revenue arrangements, except for the service agreements with its affiliates wherein it is acting as a principal (Note 3).

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

Disaggregated revenue information
Set out below is the disaggregation of the Company's revenue:

	2021	2020
Brokerage	**₱1,103,535,152**	₱932,755,501
Policy cancellation reserve*	**(1,382,328)**	(997,712)
Brokerage - net	**1,102,152,824**	931,757,789
Fee	**208,789,820**	202,780,714
Intercompany cross-charges (Note 17)	**69,288,144**	51,295,905
	₱1,380,230,788	₱1,185,834,408

**Exclusive of foreign exchange impact of ₱133,442 and ₱46,949 in 2021 and 2020, respectively.*

Information about the Company's disaggregated revenue are summarized below:

<u>*Brokerage and fees*</u>
Performance Obligation
The Company's main revenue arises from brokerage arrangements, being an intermediate party between the Insurer (customer) and Insured (client). The Company's brokerage arrangements involve placement of a single insurance policy which typically on a per quarter or a year basis. Performance obligation on these arrangements generally include three categories: *1) pre-placement activities* (e.g., placement preparation and planning, developing a placement strategy and gathering underwriting data and providing carrier quotes to the client and placement negotiation), *2) placement of the policy*, and *3) post-placement activities* (e.g., client relations and serving as an intermediary in premium and claims processing).

Performance obligations do not include activities that the Company must undertake to fulfill a contract unless those activities transfer a good or service to a client. Therefore, while the pre-placement activities may be considered capable of being distinct in certain circumstances, they would generally not be considered distinct within the context of the contract for brokerage arrangements since these activities are used as inputs into a single process which is considered the output of the contract (i.e., the placement of an effective insurance policy). As such, revenue should typically not be recognized over time as pre-placement services are performed.

The pre-placement activities are a combination of marketing efforts and other actions to place a policy. Typically, the client views the overall pre-placement and placement activities as a combined service. Therefore, placement activities (the combination of the pre-placement and actual placement) are considered distinct with post-placement activities also generally considered another distinct series of services. Therefore, the placement of an effective policy is generally one performance obligation, and post-placement activities are a separate performance obligation.

Post placement activities that are not separately priced in the arrangement or do not provide substantial incremental value to the client are typically considered immaterial to the overall contract from a qualitative and quantitative perspective. These activities typically include the collection and remittance of policy premiums and certain standard claims processing activities provided to all clients in a typical brokerage arrangement. These remaining activities are deemed immaterial, thus the post placement are not considered when allocating the transaction price.

Revenue is recognized at a point in time. The Company determined that the services provided under a brokerage arrangement are transferred to the client at a point in time when the performance obligation is satisfied and control transferred, that is, on the effective date of the underlying insurance placement.

Variable consideration on policy cancellation
While premiums are often fixed at the effective date of the policy, due to the nature of the industry, brokerage arrangements often include elements of variable consideration. Variable consideration may include policy cancellation which occurs when a client cancels a policy placed by the Company during its term, the cancellation may result in a partial or full refund or forfeiture of the commission.

The Company's revenue recognition model to take into account future policy cancellation is to recognize the fees and commissions on the effective date of the insurance policy net of a policy cancellation reserve, assuming all of the (five) 5 steps are met and as long as the Company is able to estimate policy cancellations with reasonable certainty. This analysis is to be performed at least annually, but more frequently if events or circumstances exist that may indicate policy cancellations have significantly changed (or are expected to change significantly). These cancellation reserves are recorded as a reduction to revenue and receivables in the same period in which revenue is recognized (Note 3).

Cost to obtain a contract
Costs to obtain a contract are costs that would not have been incurred if the contract had not been obtained. The Company incurs a variety of costs to obtain a contract with a client, such as selling and marketing costs, bid and proposal costs, and legal fees. However tender/proposal costs, employees' salaries and selling and marketing costs, as well as legal costs incurred in connection with the pursuit of the contract, are not incremental, as the Company would have incurred those costs regardless of whether it eventually obtains the contract. Within the Company's operations, the main incremental cost of obtaining a contract are sales and producer incentives that are paid to employees based upon the number of clients obtained or revenue earned in a period as these costs would not have been incurred unless the contracts were obtained.

Costs to obtain a contract should be capitalized and amortized on a systematic basis that is consistent with the transfer of services to the client. As a practical expedient allowed under PFRS 15, the Company recognizes incremental costs of obtaining a contract as an expense since the amortization period would be one year or less. Any other costs of obtaining a contract are expensed when incurred, unless they are explicitly chargeable to the customer regardless of whether the contract is obtained.

Intercompany cross-charges
The Company enters into service agreements with its affiliates. The agreement has one identified performance obligation which is to render support services to meet the operational requirements of its recipients. Revenue is recognized overtime using output method when the related services have been rendered. The Company assessed itself as a principal in this type of arrangement (Note 3).

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

Contract Balances
Contract receivables
These pertain to the Company's trade receivable which represents the right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities
These pertains to the Company's deferred income included under "Accounts payable and accrued expense". A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made. Contract liabilities are recognized as revenue when the Company performs under the contract.

Due to Insurance Companies
Due to Insurance Companies pertain to premiums collected from policyholders but not yet remitted to insurance companies.

Operating Costs and Expenses
Operating costs and expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Operating costs and expenses are recognized when incurred and measured at the amount paid or payable.

Share-based Payment Transactions
Certain officers of the Company are included in a Special Stock Program (SSP), which is a sub-plan of the ultimate parent's stock incentive plan which provides for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and restricted stock units (RSUs). The annual rate at which awards are granted each year is based upon financial and competitive business conditions.

The cost of equity-settled transactions is measured by reference to the fair value at the date on which these are granted. The fair value is determined by using standard option valuation formula, further details of which are disclosed in Note 14.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees/shareholders become fully entitled to the award (vesting date).

The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Aon plc's best estimate of the number of equity instruments that will ultimately vest. The income or expense for a period represents the movement in cumulative expense recognized at the beginning and end of that period.

Retirement Cost
The Company is currently maintaining two sets of Retirement Fund, both managed by a Trustee Bank. The Defined Benefit Plan covers employees who were hired prior to March 2006. Retirement cost is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Defined Benefit Retirement costs comprise the following:

(a) Service costs
(b) Net interest on the net defined benefit liability or asset
(c) Remeasurements of net defined benefit liability or asset

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as interest expense or interest income in profit or loss.

Remeasurements comprising actuarial gains and losses and return on plan assets (excluding net interest on defined benefit liability) are recognized immediately in OCI under "Actuarial gains (losses) on defined benefit obligation" in the period in which they arise. Remeasurements are not recycled to profit or loss in subsequent periods.

Employees who were hired starting March 2006, are covered under the Defined Contribution Plan. The Company recognizes the contribution due for the period as pension expense in the statement of income and pension liability, after deducting any amount already paid. If contribution payments exceed the contribution due for service before the reporting date, the Company recognizes the excess as pension asset.

When the Company's contribution is less than the total pension benefits to which the employees are entitled under Republic Act (RA) No. 7641, *The Retirement Pay Law*, the Company will pay the deficiency and recognize this amount as pension expense.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period or time in exchange for consideration.

Company as a lessee

Except for short-term leases and leases of low-value assets, the Company applies a single recognition and measurement approach for all leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term of 8.33 years.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section impairment of non-financial assets.

ii) Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

iii) Short-term leases
The Company applies the short-term lease recognition exemption to its short-term leases of office space (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Taxes
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The rates and tax laws used to compute the amount are those that have been enacted or substantially enacted as at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

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

Deferred tax relating to items recognized outside profit or loss is recognized and presented in correlation to the underlying transactions either in OCI or directly in equity.

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

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

The net amount of tax payable to the tax authority is included as part of "Accounts payable and accrued expenses" in the statement of financial position.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, and 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.

Foreign Currency Transactions and Translation
Exchange gains or losses from differences between exchange rates prevailing at the time of the transactions and exchange rates on settlement dates are credited to or charged against income. Foreign currency-denominated monetary assets and liabilities are translated to Philippine Peso using the exchange rates at the end of the year. Exchange gains or losses arising from foreign currency transactions are credited to or charged directly against operations. Foreign exchange gains or losses are considered taxable or deductible, respectively, for tax purposes only when realized.

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 disclosed when an inflow of economic benefits is probable.

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated taking into consideration the Company's historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. 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 revision and future period if the revision reflects both current and future periods.

Judgment

Principal versus Agent – Brokerage services

The Company enters into contracts with insurance companies to arrange for the provision of the specified service (i.e., place or sell insurance policies, collect premiums from policyholders and remit the amount collected to insurance companies). The Company determined that it does not control the specified goods or service (i.e., insurance policies) provided by the insurance companies before these are transferred to the customer (i.e., policyholder). The following factors indicate that the Company does not control the goods before they are being transferred to customers. Therefore, the Company determined that it is acting as an agent in these contracts.

- The Company is not primarily responsible for fulfilling the promise to provide the insurance coverage to policyholders.
- The Company has no discretion in establishing the price for the insurance policies. The Company's consideration in the contracts with insurance companies is only the commission amount based on the specified percentage of insured's premiums or based on an agreed fixed fee.

Therefore, the Company's revenue is the net amount of consideration that the Company retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party. For the years ended December 31, 2021 and 2020, the Company recognized brokerage revenue amounting ₱1,310,942,644 and ₱1,134,538,503, respectively.

Principal versus Agent – Intercompany cross-charges

The Company entered into service agreements with its affiliates to render support services to meet the operational requirements of its recipients. The Company has assessed the terms of the service agreements and concluded that it is acting as a principal since it has the direct control over the specified services performed by its employees before it is transferred to the recipients.

For the years ended December 31, 2021 and 2020, the Company recognized intercompany cross-charges under "Other income" amounting ₱69,288,144 and ₱51,295,905, respectively (Note 17).

Operating Leases - Company as Lessee

The Company has entered into property leases related to its office spaces. The Company has determined that the lessor retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

The future minimum rentals payable under non-cancellable operating leases amounted to ₱158,609,950 and ₱179,811,340 as of December 31, 2021 and 2020, respectively (Note 9).

Recognition of deferred tax assets

The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces the same to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred tax assets to be utilized. Management recognized the deferred tax asset in full since the Company estimates to generate sufficient taxable income in the future.

As of December 31, 2021 and 2020, the Company has recognized deferred tax assets of ₱47,831,519 and ₱67,721,272, respectively (Note 16).

Functional currency
The Company determined its functional currency to be the Philippine Peso. The determination of functional currency was based on the primary economic environment in which the Company generates and expends cash.

Determination of lease term of contracts with renewal and termination options
The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Judgments made in determining taxable profit (tax loss), tax bases, unused tax credits and tax rates applying paragraph 122 of PAS 1, Presentation of Financial Statements
Upon adoption of the Interpretation, the Company has assessed whether it has any uncertain tax position. The Company applies significant judgment in identifying uncertainties over its income tax treatments. The Company determined, based on its assessment, in consultation with its tax counsel, that it is probable that its uncertain income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the financial statements of the Company.

Estimates and Assumptions

Estimation of Policy Cancellation Reserve
An overall assessment of contracts is performed by the Company at least annually, but more frequently if events or circumstances exist that may indicate contract cancellations have, or are expected to, change significantly. The contract cancellation reserve is estimated based on actual cancellation history, as well as other factors that management believes are appropriate and should be considered to determine the best estimate of future cancellations.

As of December 31, 2021 and 2020, policy cancellation reserve amounted to ₱6,759,921 and ₱5,511,035, respectively (Note 5).

Provision for expected credit losses of receivables
The Company uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due for various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Company identified that inflation and gross domestic product are the relevant macroeconomic factors which will be used to determine the overlay to historical default rates.

The information about the ECLs on the Company's trade receivables is disclosed in Notes 5 and 18.

Pension cost
The determination of the obligation and cost of pension and other employee benefits are dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rate and salary increase rate. While the Company believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations. The present value of the defined benefit obligation amounted to ₱152,208,577 and ₱166,433,198 as of December 31, 2021 and 2020, respectively (Note 15).

Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The Company's lease liability amounted to ₱129,294,762 and ₱140,817,005 as of December 31, 2021 and 2020 respectively (see Note 9).

4. Cash and Cash Equivalents

	2021	2020
Cash on hand	**₱50,000**	₱50,000
Cash in banks	**332,905,062**	265,974,601
Cash equivalents	–	100,000,000
	₱332,955,062	₱366,024,601

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term rates. Interest rate in both 2021 and 2020 ranges from 0.4472% to 1.2546%.

Interest income earned amounted to ₱888,158 and ₱1,518,787 in 2021 and 2020 respectively.

5. Trade Receivables

	2021	2020
Brokerage fees receivable	**₱571,657,955**	₱604,042,613
Less allowance for:		
Expected credit losses	**26,960,825**	26,960,825
Policy cancellation reserve (Note 3)	**6,759,921**	5,511,035
	₱537,937,209	₱571,570,753

Brokerage fees receivable represent commissions and fees earned but not yet collected by the Company from insurers and related parties (Note 17).

The rollforward analysis of the allowance for expected credit losses on brokerage fees receivables are as follows:

	2021	2020
At January 1	**₱26,960,825**	₱15,882,005
Provision	–	11,078,820
At December 31	**₱26,960,825**	₱26,960,825

6. Other Current Assets

	2021	2020
Creditable withholding tax (CWT)	**₱132,015,358**	₱68,533,858
Prepaid expenses	**10,107,862**	7,434,108
	₱142,123,220	₱75,967,966

The Company's CWT is available for offset against income tax payable in future periods.

Prepaid expenses pertain mainly to unexpired insurance and advance rental and will be amortized within one year.

Other Receivables
Other receivables represent intercompany cross-charges receivables and other nontrade receivables which are non-interest bearing receivables that amounted to ₱3,421,581 and ₱13,177,323 as of December 31, 2021 and 2020, respectively (Note 17).

There is no provision for expected credit losses recognized for the years ended December 31, 2021 and 2020 for related party transactions.

7. Intangible Asset

In November 11, 2016, the Company (through Aon Singapore Pte Ltd) entered into agreement with Mayfair Intermediaries UK Limited, a company incorporated in England and Wales related to the acquisition of a portfolio of clients of Mayfair Consultancy Services UK Limited and Mayfair Intermediaries UK Limited.

As of December 31, 2021 and 2020, the costs of the intangible asset amounted to ₱38,996,160. While the related accumulated amortization amounts to ₱25,997,440 and ₱20,426,560 as of December 31, 2021 and 2020, respectively. The amortization charged to profit or loss amounted to ₱5,570,880 for the year 2021 and 2020.

8. Property and Equipment

The rollforward analysis of this account follows:

2021

	Furniture, Fixtures and Equipment	Electronic Data Processing Equipment	Leasehold Improvements	Total
Cost				
At January 1	**₱4,322,696**	**₱39,061,927**	**₱76,816,641**	**₱120,201,264**
Additions	**–**	**4,426,876**	**–**	**4,426,876**
Disposals	**(166,552)**	**–**	**(1,161,009)**	**(1,327,561)**
At December 31	**4,156,144**	**43,488,803**	**75,655,632**	**123,300,579**
Accumulated depreciation and amortization				
At January 1	**3,491,449**	**25,973,827**	**18,011,690**	**47,476,966**
Depreciation and amortization	**408,200**	**5,370,516**	**7,504,434**	**13,283,150**
Disposals	**(166,552)**	**–**	**(1,161,009)**	**(1,327,561)**
At December 31	**3,733,097**	**31,344,343**	**24,355,115**	**59,432,555**
Net book value at December 31	**₱423,047**	**₱12,144,460**	**₱51,300,517**	**₱63,868,024**

2020

	Furniture, Fixtures and Equipment	Electronic Data Processing Equipment	Leasehold Improvements	Total
Cost				
At January 1	₱4,114,712	₱35,912,215	₱76,816,641	₱116,843,568
Additions	207,984	3,149,712	-	3,357,696
At December 31	4,322,696	39,061,927	76,816,641	120,201,264
Accumulated depreciation and amortization				
At January 1	2,923,829	20,905,621	10,507,257	34,336,707
Depreciation and amortization	567,620	5,068,206	7,504,433	13,140,259
At December 31	3,491,449	25,973,827	18,011,690	47,476,966
Net book value at December 31	₱831,247	₱13,088,100	₱58,804,951	₱72,724,298

9. Leases

On September 19, 2017, the Company signed a 10-year lease agreement with Ayala Land, Inc. for office transfer to Ayala North Exchange Tower 1 effective May 1, 2018 with rent commencement date, November 1, 2018. Average monthly rent per contract and total rental payment for the year amounted to ₱1,759,687 and ₱21,116,240, respectively, with annual escalation rate of 5%.

The rollforward analysis of this account follows:

	2021	2020
Right-of-use Asset as at January 1, 2021	**₱112,831,664**	₱128,217,802
Depreciation - Right-of-use Asset	**(15,386,134)**	(15,386,138)
Right of use asset as of December 31, 2021	**₱97,445,530**	₱112,831,664

The following are the amounts recognized in statement of income:

	2021	2020
Depreciation Expense	**₱15,386,134**	₱15,386,138
Interest expense on lease liability	**9,593,997**	10,512,835
	₱24,980,131	₱25,898,973

The rollforward analysis of lease liability follows:

	2021	2020
Lease liability as at January 1, 2021	**₱140,817,005**	₱150,414,845
Accretion/ Interest expense	**9,593,997**	10,512,835
Lease payments	**(21,116,240)**	(20,110,675)
Lease Liability as at December 31, 2021	**₱129,294,762**	₱140,817,005

Current portion of lease liability amounted to ₱13,410,447 and ₱11,451,454 as of December 31, 2021 and 2020, respectively.

Future undiscounted minimum rentals payable under the above lease commitments as of December 31 follow:

	2021	2020
Within one year	**₱22,261,494**	₱21,201,390
After one year but not more than five years	**129,159,861**	123,009,286
More than five years	**7,188,595**	35,600,664
	₱158,609,950	₱179,811,340

10. **Financial Asset at FVOCI**

The Company's investment in financial asset at FVOCI pertains to an investment in golf club share with an acquisition cost of ₱2,075,000. As of December 31, 2021 and 2020, fair value of financial asset at FVOCI amounted to ₱6,000,000 and ₱5,000,000 respectively. The unrealized fair value gain (loss) on financial asset at FVOCI amounted to ₱1,000,000 and (₱500,000) as of December 31, 2021 and 2020, respectively.

The fair value movement on financial asset at FVOCI records the difference between acquisition cost and fair value of FVOCI equity securities and is recognized in other comprehensive income in the equity section of the statement of financial position.

11. **Due to Insurance Companies**

Due to Insurance Companies pertains to premiums that are due for remittance to insurance companies that are non-interest-bearing and are normally settled within 90 days for non-life insurance and 30 days for life insurance. Due to Insurance Companies amounted to ₱6,497,045 and ₱49,596,895 as of December 31, 2021 and 2020, respectively.

12. Accounts Payable and Accrued Expenses

	2021	2020
Accounts payable		
Intercompany (Note 17)	**₱156,650,683**	₱125,233,824
Trade	**2,377,960**	1,724,013
Accrued expenses	**85,840,690**	81,091,517
Deferred output VAT	**50,233,612**	42,976,832
Output VAT	**10,362,278**	10,911,075
Withholding taxes payable	**8,889,475**	22,520,565
Deferred income	**3,683,414**	1,139,766
	₱317,871,370	₱285,597,592

Accounts payable includes payable to government agencies (SSS, HDMF and statutory payable) and other intercompany related payables (Note 17).

Accrued expenses include accrual for employee benefits like bonuses and incentives which are normally settled within the following year. Vacation leave is converted to cash upon resignation.

Deferred output VAT pertains to VAT on commissions not yet collected from clients and insurers. This will be recognized as output VAT payable upon collection.

Withholding taxes payable includes withholding tax on compensation, fringe benefit tax, and expanded withholding tax.

Deferred income pertains to accounts booked before the effectivity of the policies. This is recognized as earned revenue on the income statement at policy inception date.

13. Equity

Capital Stock
The Company's authorized capital stock amounted to ₱300,000,000, consisting of 3,000,000 shares, with par value of ₱100 per share. As of December 31, 2021 and 2020, issued and outstanding capital stock amounted to ₱215,180,000, consisting of 2,151,800 shares.

Retained Earnings
Cash dividends were declared by the BOD to stockholders of record as of December 31, 2021 and 2020. Details are shown below:

Year	Date of Declaration	Dividend	Amount Per Share	Amount	Date Paid
2021	March 17, 2021	Cash Dividend	₱117.11	₱252,000,000	October 15, 2021
2020	May 21, 2020	Cash Dividend	₱81.33	₱175,000,000	February 9, 2021

Declaration of Cash Dividends
On March 17, 2021 and May 21, 2020, the BOD authorized and approved the declaration of a cash dividend in the amount of ₱252,000,000 and ₱175,000,000 to be taken out of the unrestricted retained earnings of the Company as of December 31, 2021 and 2020, respectively.

Details of the movement in cash flows from financing activities follows:

	2021	2020
Balance at beginning of year	**₱157,500,000**	₱135,000,000
Dividend declaration	**252,000,000**	175,000,000
Dividend payment	**(409,500,000)**	(152,500,000)
Balance at end of year	**₱-**	₱157,500,000

As of December 31, 2021, the Company's retained earnings exceeded its capital stock. The Company plans to declare dividends in 2022 to be taken out of the unrestricted retained earnings of the Company as of December 31, 2021.

After reconciling items, the amount of retained earnings available for dividend declaration is ₱483,220,993.

Capital Management

The primary objective of the Company's capital management is aligned with the strategy of its parent company, which is to ensure a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company is subject to external capital requirements mandated by the Insurance Commission (IC) in order to sustain investor confidence and engender domestic capacity and capability of insurance and reinsurance brokers.

Per Insurance Memorandum Circular No. 1-2006 issued by the IC, Insurance and Reinsurance Brokers must have a net worth of ₱25,000,000. As of December 31, 2021 and 2020, the Company is fully compliant to the net worth as required under the IC memorandum circular.

14. Stock Option Plan

The Company awarded its key officers with a grant under its Special Stock Program (SSP).

SSP is a sub-plan of the parent company's stock incentive plan, which provides for the grant of non-qualified and incentive stock options, stock appreciation rights, restricted stock and Restricted Stock Unit (RSU). The annual rate at which awards are granted each year is based upon financial and competitive business conditions. Under the program, the grantees are given the option to determine the mix of stock options and RSUs depending on the participant's risk tolerance and personal expectations of the ultimate parent's stock price performance over the term of the grant.

Stock Awards

Stock Awards, in the form of RSUs, are issued as they vest. With certain limited exceptions, any break in continuous employment will cause forfeiture of all unvested awards. The compensation cost associated with each stock award is amortized over the service period using the straight-line method. Dividends equivalents are paid on certain service-based RSUs, based on the initial grant amount.

Vesting of performance-based RSUs is contingent upon meeting various individual, divisional or company-wide performance conditions, including revenue generation or growth in revenue, pretax income or earnings per share over a three to five-year period. The performance condition is not considered in the determination of grant date fair values of these awards. Compensation cost is recognized over the performance period, and in certain cases an additional vesting period, based on management's estimate of the number of units expected to vest. Compensation cost will be adjusted to reflect the actual number of shares earned at the end of the programs. The issuance of shares under these performance-based plans may range up to 200% of the number of units granted, based on plan. Dividend equivalents are generally not paid on performance-based RSUs.

Stock Options
Options to purchase common stock are generally at 100% market value at the grant date. In general, employees are required to complete two continuous years of service before the options begin to vest in increments until the completion of a four-year period of continuous employment, although a number of options were granted that require five continuous years of service before all options would vest. The maximum contractual term on stock options is generally ten years from the date of grant.

Aon plc, the ultimate parent company, uses a lattice-binomial option-pricing model to value stock options. Lattice-based option valuation models utilize a range of assumptions over the expected term of the options. Expected volatilities are based on the average of the historical volatility of Aon plc's stock price and implied volatility of traded options and Aon plc's stock. Aon uses historical data to estimate option exercise and employee terminations within the valuation model, stratifying between executives and key employees. The expected dividend yield assumption is based on the ultimate parent company's historical and expected future dividend rate. The risk-free rate for period within the contractual life of the option is based on the US Treasury yield curve in effect at the time of grant.

The following table lists the inputs to the model used as of grant date:

Dividend yield	1.45%
Risk-free interest rate	2.79%
Expected volatility	30.22%
Option life	5.74 years
Current share price	US$47.16

There were no availments or forfeitures in the number of shares granted in the stock option plan as of December 31, 2021 and 2020.

15. **Pension Liability**

The Company currently maintains two (2) sets of retirement funds. The Defined Benefit Pension plan covers the employees hired prior to March 2006, while the Defined Contribution plan covers those hired after March 2006. Under the Defined Benefit plan, qualified employees who have rendered at least ten (10) years of continuous service and has reached 60 years of age shall be retired on the first day of the month coincident with or next following his/her attainment of the eligibility. The member who has reached the age of 65 shall be automatically retired regardless of years of service.

The benefits are based on years of service multiplied by the monthly salary base at the time of retirement.

The funds are administered by a trustee. The plan shall be funded solely by the Company based on yearly actuarial valuation provided by the actuary.

On March 24, 2022, the Company obtained actuarial valuation report in accordance with the amended PAS 19R for the period ended December 31, 2021.

<u>Defined Benefit Plan</u>
The following tables summarize the components of pension expense and net interest expense recognized in the statements of income, remeasurements recognized in other comprehensive income and the funded status and amounts recognized in the statements of financial position for the existing defined benefit pension plan.

Changes in the net defined benefit liability follow:

2021	**Present value of defined benefit obligation**	**Fair value of plan assets**	**Total net pension liability**
Balance at beginning of year	**₱166,433,198**	**(₱83,461,123)**	**₱82,972,075**
Benefit cost in statement of income			
Current service cost	**7,972,626**	**–**	**7,972,626**
Net interest expense (income)	**5,325,862**	**(2,670,756)**	**2,655,106**
Remeasurements in OCI			
Actuarial loss on plan assets	**–**	**2,445,385**	**2,445,385**
Actuarial loss (gain) on defined benefit obligation:			
Experience adjustment	**8,727,876**	**–**	**8,727,876**
Change in financial assumption	**(31,108,835)**	**–**	**(31,108,835)**
Contributions to the plan assets	**–**	**(8,031,122)**	**(8,031,122)**
Benefits paid	**(5,142,150)**	**5,142,150**	**–**
Balance at end of year	**₱152,208,577**	**(₱86,575,466)**	**₱65,633,111**

2020	Present value of defined benefit obligation	Fair value of plan assets	Total net pension liability
Balance at beginning of year	₱149,592,309	(₱76,034,174)	₱73,558,135
Benefit cost in statement of income			
Current service cost	8,031,122	–	8,031,122
Net interest expense (income)	7,180,431	(3,649,640)	3,530,791
Remeasurements in OCI			
Actuarial loss on plan assets	–	(625,523)	(625,523)
Actuarial loss (gain) on defined benefit obligation:			
Experience adjustment	(15,533,752)	–	(15,533,752)
Change in financial assumption	19,315,748	–	19,315,748
Contributions to the plan assets	–	(5,304,446)	(5,304,446)
Benefits paid	(2,152,660)	2,152,660	–
Balance at end of year	₱166,433,198	(₱83,461,123)	₱82,972,075

Presented below is the rollforward of the actuarial losses on net pension liability:

2021

	Gross	**Tax**	**Net**
Actuarial losses on net pension liability, beginning	**(₱60,792,694)**	**(₱18,237,807)**	**(₱42,554,887)**
Adjustment - Effect of CREATE Act		**3,039,635**	**(3,039,635)**
Actuarial gain (loss) on:			
Plan assets	**(2,445,385)**	**(611,346)**	**(1,834,039)**
Financial assumptions on DBO	**31,108,835**	**7,777,209**	**23,331,626**
Experience adjustment on DBO	**(8,727,876)**	**(2,181,969)**	**(6,545,907)**
Actuarial losses on net pension liability, end	**(₱40,857,120)**	**(₱10,214,278)**	**(₱30,642,842)**

2020

	Gross	Tax	Net
Actuarial losses on net pension liability, beginning	(₱57,636,221)	(₱17,290,866)	(₱40,345,355)
Actuarial gain (loss) on:			
Plan assets	625,523	187,657	437,866
Financial assumptions on DBO	(19,315,748)	(5,794,724)	(13,521,024)
Experience adjustment on DBO	15,533,752	4,660,126	10,873,626
Actuarial losses on net pension liability, end	(₱60,792,694)	(₱18,237,807)	(₱42,554,887)

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	December 31, 2021	December 31, 2020
Assets:		
Cash and cash equivalents	**₱178**	₱43
Debt instrument		
Government securities	**69,522,378**	66,106,210
Corporate bonds	**4,572,939**	4,706,675
Equity instrument		
Investments in UITF	**11,428,034**	11,061,300
Unit investment trust funds	**445,769**	816,602
Accrued income receivable	**706,406**	863,360
Receivables	**(1,144)**	(591)
Liability:		
Trust fee payable	**(99,094)**	(92,476)
Fair value of plan assets	**₱86,575,466**	₱83,461,123

The actual return on plan assets amounted to ₱225,371 and ₱4,275,163 in 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the fair values of financial instruments in the plan assets approximate their carrying amounts.

The principal assumptions used in determining the pension obligation for the defined benefit plans are shown below:

	2021	2020
Discount rate	**4.90%**	3.20%
Salary increase rate	**3.60%**	4.70%
Average remaining working lives of employees	**8 years**	8 years

The sensitivity analysis below as of December 31, 2021 and 2020 respectively, has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

2021

Assumptions:	**Increase (decrease)**	**Impact on present value of defined benefit obligation**
Discount rates	**+0.5%**	**(₱4,901,575)**
	-0.5%	**5,139,194**
Salary increase rate	**+0.5%**	**4,803,647**
	-0.5%	**(4,629,326)**

2020

Assumptions:	Increase (decrease)	Impact on present value of defined benefit obligation
Discount rates	+0.5%	(₱6,389,864)
	-0.5%	6,741,397
Salary increase rate	+0.5%	6,198,925
	-0.5%	(5,945,287)

The maturity analysis of the undiscounted benefit payments as of December 31, 2021 and 2020 follows:

	2021	2020
Within five (5) years	**₱41,266,009**	₱38,194,038
More than five (5) years but less than ten (10) years	**180,329,016**	164,343,578
Ten (10) years and above	**67,790,461**	103,589,467
	₱289,385,486	₱306,127,083

The average duration of defined benefit obligation at the end of December 31, 2021 and 2020 is 8 years.

The Company expects to contribute ₱7,972,626 into the pension fund in 2022.

Defined Contribution Plan

The Defined Contribution plan is also being administered by the same Trustee and the contribution are done on a regular basis as prescribed in the plan. The related liability for the Defined Contribution plan is recognized under “Accounts payable and accrued expenses”.

Changes in the present value of obligation and in fair value of plan assets follow:

	2021	2020
Present value of obligation, beginning	**₱9,618,957**	₱3,523,784
Interest expense	**317,426**	176,189
Current service cost	**1,708,007**	760,252
Actuarial gain	**(8,614,477)**	5,158,732
Present value of obligation, ending	**₱3,029,913**	₱9,618,957

Presented below is the rollforward of the actuarial losses on net pension liability:

2021

	Gross	**Tax**	**Net**
Actuarial losses on net pension liability, beginning	**(₱4,456,398)**	**(₱1,336,920)**	**(₱3,119,478)**
Adjustment - Effect of CREATE Act	**–**	**222,820**	**(222,820)**
Actuarial gain on obligation	**8,614,477**	**2,153,619**	**6,460,858**
Actuarial gain on net pension liability, end	**₱4,158,079**	**1,039,519**	**₱3,118,560**

16. **Income Tax**

	2021	2020
Current:		
Regular corporate income tax	**₱111,977,765**	₱110,602,111
Final	**53,026**	182,678
	112,030,791	110,784,789
Deferred	**12,752,240**	(12,667,910)
	₱124,783,031	₱98,116,879

Deferred Tax
The components of net deferred tax assets as of December 31 are as follows:

	2021	2020
Presented in profit or loss		
Deferred tax assets on:		
Provision for other employee benefits and geared incentives	**₱61,352,114**	₱47,432,797
PFRS 16 Leases	**31,849,233**	27,985,341
Allowance for impairment losses	**26,960,825**	26,960,825
Net pension liability	**24,834,489**	22,179,383
Accrued expenses	**7,917,341**	5,891,908
Accrued rent - PAS 17	**7,641,555**	6,456,887
Policy cancellation reserve	**6,893,362**	5,511,035
Unamortized past service cost	**4,360,566**	5,086,009
Unrealized forex loss	**(17,183,784)**	12,982,963
	154,625,701	160,487,148
Tax rate	**25%**	30%
	38,656,425	48,146,144
Presented in OCI		
Deferred tax asset:		
Net pension liability	**36,700,376**	65,250,427
Tax rate	**25%**	30%
	9,175,094	19,575,128
Total	**₱47,831,519**	₱67,721,272

A reconciliation of income tax computed at statutory tax rate to provision for income tax follows:

	2021	2020
Income at statutory tax rate	**₱121,607,792**	₱97,889,375
Tax effects of:		
CREATE Act Adjustment	**2,070,036**	–
Nondeductible expenses	**1,118,460**	319,980
Interest income subjected to final tax	**53,026**	182,678
Nontaxable income	**(66,283)**	(275,153)
Effective income tax	**₱124,783,031**	₱98,116,879

Corporate Recovery and Tax Incentive for Enterprise (CREATE) Act
On March 26, 2021, President Rodrigo Duterte signed into law the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The key changes of the CREATE law are as follows:
- Effective July 1, 2020, RCIT rate is decreased from 30% to 20% for corporations with total assets of 100.00 million or below and taxable income of 5.0 million and below. All other corporations not meeting the criteria will be subject to lowered RCIT rate of 25% from 30%;
- Effective July 1, 2020 and for a period of 3 years, MCIT rate will lowered from 2% to 1% of gross income; and
- Improperly accumulated earnings tax of 10% is repealed.

The RCIT and MCIT applied in the preparation of the Company's financial statements as at and for the year December 31, 2020 are based on the substantively enacted tax rates existing as of the balance sheet date which are 30% RCIT and 2% MCIT.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes. The impact of the reduction in the income tax rate is recognized in the 2021 financial statements.

Applying the provisions of the CREATE Act, the Group have been subjected to the lower tax rate of 30% to 25% (itemized deduction) of taxable income and 1% MCIT of gross income effective July 1, 2020.

The Company recognized one-time impact of CREATE in the statement of comprehensive income for the period ended December 31, 2021 amounting to ₱1,192,485 and ₱3,262,521 for provision for income tax (current and deferred) and remeasurement loss on defined benefit obligation, respectively. Deferred tax assets-net also decreased by ₱11,286,878 million.

17. Related Party Transactions

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 other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

Terms and Conditions of transactions with related parties
Transactions between related parties are based on terms similar to those offered to non-related parties and unless otherwise stated, are settled in cash.

Outstanding balances at year-end are secured, interest free and due within one year. There have been no guarantees or collaterals provided or received for any related party receivables or payables. The Company does not provide any allowance relating to receivable from related parties in prior years.

There are also no ECL recognized in current year for related party receivables since there are no history of default payments. This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

Details of the Company's related party transactions are as follows:

a. The Company pays Network Fee to Aon Singapore and Center for Innovation, Strategy and Management Pte. Ltd. (ASCISM) for the services and use of intangible property. Under the Service agreement and its accompanying schedules ASCISM agreed to provide executive management services, corporate and shared services, information technology services, Aon Benfield management services, analytics services, Aon Risk services management services and Aon Hewitt management services. Network fee in 2021 and 2020 amounted to ₱240,191,915 and ₱229,034,001, respectively. In 2017, the company started to pay Global Profitability Analytical Services and Health and Benefits analytics amounting to ₱77,787,552 and ₱68,882,389 in 2021 and 2020, respectively. These amounts are reported as "Management, technical and royalty fees" in the statements of comprehensive income.

   Aon Service Corp provides Risk Management Services to the Company in exchange for a fee. Risk Management costs incurred by ASC have two components: 1) a pass-through of insurance premiums for global insurance coverages which are allocated to Aon Affiliates including Aon Philippines based on allocation keys that reasonably reflect the use and benefit to Aon Affiliates and do not include a markup and 2) placement fees charged by ASC as a percentage of gross premium for placing the coverage with the third-party insurers. Risk Management Services in 2021 amounted to ₱5,149,502. This amount is reported under "Insurance" in the statements of comprehensive income.

b. In 2013, the trademark and trade name sublicense agreement were entered into between Aon Global Operations Limited (Singapore Branch). The Company pays brand royalty fee amounting ₱29,662,309 in 2020. This amount is reported as "Management, technical and royalty fees" in the statements of comprehensive income.

   In 2021, the Company paid Brand Service Fees of ₱23,483,808 to Aon Global Operations SE Singapore Branch and Base Trademark Royalty to Aon Singapore Center For Innovation, Strategy and Management Pte Ltd amounting to ₱6,428,616. These amounts are reported as "Management, technical and royalty fees" in the statements of comprehensive income.

c. In 2013, the trademark and trade name sublicense agreement were entered into between Aon Global Operations Limited (Singapore Branch). Aon Philippines pays brand royalty fee amounting ₱6,428,616 and ₱29,662,309 in 2021 and 2020, respectively. These amounts are reported as "Management, technical and royalty fees" in the statements of comprehensive income.

   Transactions with related parties also include commission sharing and reimbursements of allocated share of expenses to and from fellow enterprise. Total cost reimbursement and commission sharing amounted to ₱4,911,623 and ₱72,209,255, respectively, for the year 2021, and ₱11,583,993 and ₱124,312,989, respectively, for the year 2020. Cost reimbursement and commission sharing are reported as "Accounts payable and accrued expenses" in the statements of financial position and "Other income" in the statements of comprehensive income, respectively.

d. In 2017, the Company entered into service agreement to render support services to meet the operational requirements of its affiliates at cost plus 6%. Total intercompany cross-charges included under “Other income” in the statements of comprehensive income amounted to ₱69,288,144 and ₱51,295,905 in 2021 and 2020, respectively.

e.

The summary of outstanding balances resulting from transactions with related parties as of and for the year ended December 31 follows:

2021

	Nature of Transaction	Amount	Outstanding Balance Receivable	Outstanding Balance Payable	Terms	Conditions
Aon Services Hong Kong Limited		₱2,215,341	₱–	₱–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon UK Limited		1,166,362	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Services Pty Ltd		1,007,000	83,371	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Solutions Singapore Pte. Ltd.		90,438	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Service Corporation		361,375	–	272,609	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Singapore Pte. Ltd.		71,107	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Service Corporation	Management Services	5,149,502	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
	Cost Reimbursement	₱10,061,125	₱83,371	₱272,609		
Aon Singapore Center For Innovation, Strategy and Management Pte Ltd	ANF	₱240,191,915	₱–	₱127,442,672	% of Total Operating Revenue	Unsecured, no impairment
	HNB/CSS	69,766,441	–	–	% of Total Operating Revenue	Unsecured, no impairment
Aon Global Operations SE Singapore Branch	Brand Services	23,483,808		–	% of Total Operating Revenue	Unsecured, no impairment
Aon Consulting Inc.	Greater Insights	8,021,111	–	–	% of Total Operating Revenue	Unsecured, no impairment
Aon Singapore Center For Innovation, Strategy and Management Pte Ltd	Brand Royalty	6,428,616	–	–	% of Total Operating Revenue	Unsecured, no impairment
		₱347,891,891	₱–	₱127,442,672		
Aon Singapore (Broking Centre) Pte. Ltd.		₱26,122,121	₱865,311	₱3,186,626	Commission Sharing with Other Aon Offices	Unsecured, no impairment
Aon UK Limited		13,707,007	22,429,652	6,234,191	Commission Sharing with Other Aon Offices	Unsecured, no impairment
Aon Reinsurance Solutions Asia Pte. Ltd.		14,074,310	35,678,753	5,922,689	Commission Sharing with Other Aon Offices	Unsecured, no impairment
Various Other Fellow Enterprise		18,305,817	13,447,321	13,591,896	Commission Sharing with Other Aon Offices	Unsecured, no impairment
	Commission Sharing	₱72,209,255	₱72,421,037	₱28,935,402		
Aon Consulting, Inc. (NJ)		₱43,294,843	₱–	₱–	Cost plus 6%, 30-90 days, settlement in cash, non-interest bearing	Unsecured, no impairment
Aon Reinsurance Solutions Asia Pte. Ltd.		15,307,843	1,227,254	–	Cost plus 6%, 30-90 days, settlement in cash, non-interest bearing	Unsecured, no impairment
Aon Services Pty Ltd		10,684,983	781,195	–	Cost plus 6%, 30-90 days, settlement in cash, non-interest bearing	Unsecured, no impairment
Aon UK Limited		475	–	–	Cost plus 6%, 30-90 days, settlement in cash, non-interest bearing	Unsecured, no impairment
	Intercompany cross-charges	₱69,288,144	₱2,008,449	₱–		

2020

	Nature of Transaction	Amount	Outstanding Balance Receivable	Outstanding Balance Payable	Terms	Conditions
Aon Singapore Center For Innovation, Strategy and Management Pte Ltd		₱2,053,706	₱–	₱–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Australia		4,004,350	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Service Corporation		135,154	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Solutions Singapore Pte. Ltd		948,112	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon Hongkong		3,352,406	–	1,029,516	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
Aon UK Limited		1,090,265	–	–	Cost Allocation in the Use of Global Resources / Services	Unsecured, no impairment
	Cost Reimbursement	₱11,583,993	₱–	₱1,029,516		

(Forward)

	Nature of Transaction	Amount	Outstanding Balance Receivable	Payable	Terms	Conditions
Aon Singapore Center For Innovation, Strategy and Management Pte Ltd	ANF	₱229,034,001	₱–	₱18,177,876	% of Total Operating Revenue	Unsecured, no impairment
	HNB/CSS	62,379,099	–	57,366,229	% of Total Operating Revenue	Unsecured, no impairment
Aon Consulting Inc.	Greater Insights	6,503,290	–	4,852,039		
Aon Global Operations Pte., Ltd	ABR	29,662,309	–	–	% of Total Operating Revenue	Unsecured, no impairment
		₱327,578,699	₱–	₱80,396,144		
Aon Singapore		₱80,900,467	₱96,616,524	₱18,681,138	Commission Sharing with Other Aon Offices	Unsecured, no impairment
Aon United Kingdom		46,627,789	35,764,246	12,932,103	Commission Sharing with Other Aon Offices	Unsecured, no impairment
Various Other Fellow Enterprise		(3,215,267)	7,864,790	12,194,923	Commission Sharing with Other Aon Offices	Unsecured, no impairment
	Commission Sharing	₱124,312,989	₱140,245,560	₱43,808,164		
Aon Hewitt		₱30,810,696	₱866,153	₱–	Cost plus 6%, 30-90 days, settlement in cash, non-interest bearing	Unsecured, no impairment
Aon Benfield Asia Pte Ltd		12,613,196	10,004,933	(4,873)	Cost plus 6%, 30-90 days, settlement in cash, non-interest bearing	Unsecured, no impairment
Aon Australia		7,872,013	2,303,573	–	Cost plus 6%, 30-90 days, settlement in cash, non-interest bearing	Unsecured, no impairment
	Intercompany cross-charges	₱51,295,905	₱13,174,659	(₱4,873)		

Compensation of Key Management Personnel
The following table consists of the compensation of the Company's key management personnel included as "Salaries and benefits" in the statements of income:

	2021	2020
Salaries, wages and other short-term benefits	**₱232,037,380**	₱195,537,780
Retirement benefits	**21,508,672**	15,820,363
	₱253,546,052	₱211,358,143

There is no agreement between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan. There were no additional benefits paid to the Company's directors and key management personnel in excess of those in the retirement plan.

18. Risk Management and Financial Instruments

Risk Management Policies
The primary objective of the Company's financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognizes the critical importance of having efficient and effective financial management systems in place.

The BOD approves the Company's financial management policies and meets regularly to approve any commercial, regulatory and organizational requirements of such policies. These policies define the Company's identification of financial risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets and specify reporting requirements.

The main risks arising from the use of financial instruments include liquidity risk, credit risk and currency risk. The Company continually monitors the risks arising from all financial instruments. The Company has no significant exposure to risks of changes in fair value of financial instruments from fluctuations in market prices (equity price risk). The company's exposure to equity price risk relates primarily to the Company's quoted AFS investment and financial assets at FVOCI. The Company intends to hold the investments indefinitely as the club share were acquired primarily for the use of club facilities.

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows.

The table below summarizes the collectability analysis of financial assets and the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments as of December 31:

2021

	Within 1 Year	**1-5 Years**	**More than 5 years**	**No Maturity Date/Term**	**Total**
Financial assets:					
Cash and cash equivalents	**₱332,955,062**	**₱–**	**₱–**	**₱–**	**₱332,955,062**
Trade receivables	**537,937,209**	**–**	**–**	**–**	**537,937,209**
Financial asset at FVOCI	**–**	**–**	**–**	**6,000,000**	**6,000,000**
Other receivables	**3,421,581**	**–**	**–**	**–**	**3,421,581**
Refundable deposits	**–**	**15,422,274**	**–**	**–**	**15,422,274**
	₱874,313,851	**₱15,422,274**	**₱–**	**₱6,000,000**	**₱895,736,126**
Financial liabilities:					
Due to insurance companies	**₱6,497,045**	**₱–**	**₱–**	**₱–**	**₱6,497,045**
Accounts payable and accrued expenses*	**248,386,003**	**–**	**–**	**–**	**248,386,003**
	₱254,883,048	**₱–**	**₱–**	**₱–**	**₱254,883,048**

** Accounts payable and accrued expenses exclude taxes payable and other statutory payable.*

2020

	Within 1 Year	1-5 Years	More than 5 years	No Maturity Date/Term	Total
Financial assets:					
Cash and cash equivalents	₱366,024,601	₱–	₱–	₱–	₱366,024,601
Trade receivables	571,570,753	–	–	–	571,570,753
Financial asset at FVOCI	–	–	–	5,000,000	5,000,000
Other receivables	13,177,323	–	–	–	13,177,323
Refundable deposits	–	21,542,263	–	–	21,542,263
	₱950,772,677	₱21,542,263	₱–	₱5,000,000	₱977,314,940
Financial liabilities:					
Due to insurance companies	₱49,596,895	₱–	₱–	₱–	₱49,596,895
Accounts payable and accrued expenses*	366,689,120	–	–	–	366,689,120
	₱416,286,015	₱–	₱–	₱–	₱416,286,015

** Accounts payable and accrued expenses exclude taxes payable and other statutory payable.*

Credit Risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade and other receivables).

Credit risk arises from the financial assets of the Company, which comprise mainly of cash, cash equivalents, trade receivables and other receivables. The Company's exposure to credit risk relates to default of the counterparty with a maximum exposure equal to the carrying amount of the instruments.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (third party and intercompany receivables). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

2021

	Total	Third party receivables	Intercompany receivables
Expected credit loss rate	**2.51%**	**2.87%**	**0.25%**
Estimated total gross carrying amount at default	**₱571,657,955**	**₱499,236,917**	**₱72,421,037**
Expected credit loss	**₱26,960,825**	**₱26,779,772**	**₱181,053**

2020

	Total	Third party receivables	Intercompany receivables
Expected credit loss rate	2.51%	2.87%	0.25%
Estimated total gross carrying amount at default	₱604,042,613	₱465,784,259	₱138,258,355
Expected credit loss	₱26,960,825	₱26,615,179	₱345,646

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents and financial assets at FVOCI, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

As of December 31, 2021 and 2020, the amount of expected credit loss amounted to ₱26,960,825.

Currency Risk
The Company maintains US dollar-denominated cash deposits and invests in US dollar-denominated time deposits to meet its dollar obligations. The following table shows the details of the Company's foreign currency denominated monetary assets and liabilities and their Philippine Peso equivalents as of December 31:

	2021*		2020*	
	US Dollar	**Philippine Peso Equivalent**	US Dollar	Philippine Peso Equivalent
Assets				
Cash and cash equivalents	**$1,530,298**	**₱76,545,485**	$3,259,662	₱156,577,854
Brokerage fees receivable	**2,782,313**	**139,171,303**	4,564,991	219,279,360
	$4,312,611	**₱215,716,788**	$7,824,653	₱375,857,214

(Forward)

	2021*		2020*	
	US Dollar	**Philippine Peso Equivalent**	US Dollar	Philippine Peso Equivalent
Liabilities				
Due to insurance companies	**$355,211**	**₱17,767,661**	$1,037,002	₱49,812,405
Accounts payable and accrued expenses	**2,754,155**	**137,762,829**	3,235,320	155,408,603
	$3,109,366	**₱155,530,490**	$4,272,322	₱205,221,008

**The exchange rates used were ₱50.02 and ₱48.035 as at December 31, 2021 and December 31, 2020, respectively.*

Sensitivity analysis
The following table demonstrates sensitivity to a reasonably possible change in the Philippine Peso exchange rate, with all other variables held constant, of the Company's income before income tax (due to changes in the fair value of monetary assets and liabilities).

	Currency	Increase (decrease) in Philippine Peso rate	Effect on income before income tax
2021	**USD**	**-0.82%**	**₱492,746**
		0.82%	**(492,746)**
2020	USD	-0.75%	₱1,279,428
		0.75%	(1,279,428)

Reasonably possible movements in foreign exchange rates are computed on average percentage changes for 2-year using BAP closing rates for the USD-Php exchange rates.

Fair Value Measurement
As of December 31, 2021 and 2020, the financial assets and liabilities are approximately equal to their carrying amounts.

As of December 31, 2021 and 2020, the Company has financial asset at FVOCI valued under Level 1 amounting ₱6,000,000 and ₱5,000,000, respectively. There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

19. Operating Lease Commitments

The Company has existing lease agreements with Regus Philippines Centre Three, Inc. and Topaz Tower Davao Centre, Inc. for its offices in Cebu and Davao respectively.

Last October 16, 2020, the Company signed a lease agreement with Regus Philippines Centre Three, Inc. for Cebu office for a period of 1 year, from January 1, 2021 up to December 31, 2021. Monthly rental per contract and total rental payment for the year amounted to ₱108,072 and ₱1,296,864, respectively.

The Company started its operations in Davao in 2017 and signed a lease agreement with and Topaz Tower Davao Centre, Inc. until March 31, 2022 which was renewed subsequently. Monthly rental per contract and total rental payment for the year amounted to ₱39,760 and ₱477,120, respectively. The agreement is renewable every year.

20. Contingencies

As of December 31, 2021 and 2020, there is no present, pending nor threatened litigation, claim, lawsuit or proceeding by or against the Company that would warrant recognition of a contingent liability. The Company is not aware of any other case under preliminary investigation, litigation and/or prosecution in courts.

21. Notes to Statements of Cash Flows

Changes in Liabilities arising from Financing Activities
Changes in liabilities arising from financing activities for the year ended December 31, 2021 and 2020 are as follow:

	December 31, 2020	Non-cash change	Cash flows*	December 31, 2021
Dividends payable	**₱157,500,000**	**₱252,000,000**	**(₱409,500,000)**	**–**
Lease liability	**140,817,005**	**9,593,997**	**(21,116,240)**	**129,294,762**
Balance at end of year	**₱298,317,005**	**261,593,997**	**(430,616,240)**	**129,294,762**

**25,200,000 cash flow pertains to final tax paid on dividends declared.*

	December 31, 2019	Non-cash change	Cash flows*	December 31, 2020
Dividends payable	₱135,000,000	₱175,000,000	(₱152,500,000)	₱157,500,000
Lease liability	150,414,845	10,512,835	(20,110,675)	140,817,005
Balance at end of year	₱285,414,845	₱185,512,835	(₱172,610,675)	₱298,317,005

**17,500,000 cash flow pertains to final tax paid on dividends declared.*

22. Other Matters

The declaration of COVID-19 by the World Health Organization (WHO) as a pandemic and declaration of nationwide state of calamity and implementation of community quarantine measures throughout the country starting have caused disruptions in business activities. While there are recent signs of increased market activity with the easing of quarantine measures in key areas in the Philippines, management believes that the impact of COVID-19 situation remains fluid and evolving and the pace of recovery remains uncertain. As this global problem evolves, the Company will continually adapt and adjust its business model according to the business environment in the areas where the Company operates, in full cooperation with the national and local government units.

23. Supplementary Information Required under RR 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year.

<u>VAT</u>
The Company's brokerage income is subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.00%.

The amount of VAT output taxes declared during the year are broken down into:

	VATable Sales/receipts		Zero-rated	Total
	Private	Government		
Sales	₱1,148,137,514	₱–	₱264,148,279	₱1,412,285,793
VAT Output	137,776,502	–	–	137,776,502

The amount of Net Output VAT paid are broken down as follows:

Balance at January 1	₱10,911,075
Additions	137,776,502
Application of Input VAT	(22,009,083)
Balance at December 31	(10,362,278)
Net Output VAT Paid	₱116,316,216

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

Balance at January 1	₱–
Domestic purchases/payments for:	
Services	17,198,034
Capital goods subject to amortization	2,364,620
Services Rendered by Non-Residents	1,748,239
Goods other than for resale or manufacturing	698,190
	22,009,083
Input VAT applied against output VAT	22,009,083
Balance at December 31	₱–

Other Taxes and Licenses for 2021

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees. These are classified as "Taxes and licenses" under "Operating costs and expenses" account in the statements of income.

Details consist of the following:

Local	
Licenses and business permit fees	₱8,823,747
Documentary stamp taxes	524,373
Community tax certificate	10,500
Others	4,040,143
	13,398,763
National	
IC Certificate	176,775
BIR registration fees	1,500
	178,275
	₱13,577,038

Importations
The Company has no excise taxes paid on locally produced excisable items and imported excisable items.

Withholding Taxes
The amount of withholding taxes paid and accrued for the year amounted to:

	Amount	Outstanding balance
Withholding taxes on compensation and benefits	₱80,554,354	₱6,920,491
Final withholding taxes	28,842,165	1,648,348
Expanded withholding taxes	1,966,096	320,636
	₱111,362,615	₱8,889,475

Tax Contingencies
The Company has no formal assessment from the BIR for alleged deficiency taxes. In addition, the Company has no pending cases outside the administration of the BIR.