



# SECURITIES AND EXCHANGE COMMISSION

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## Company Information

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**SEC Registration No.:** CS200629755

**Company Name:** PNX-UDENNA INSURANCE BROKERS, INC.

**Industry Classification:** J67010

**Company Type:** Stock Corporation

## Document Information

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**Document ID:** OST10623202381373238

**Document Type:** Financial Statement

**Document Code:** FS

**Period Covered:** December 31, 2022

**Submission Type:** Annual

**Remarks:** None

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Acceptance of this document is subject to review of forms and contents

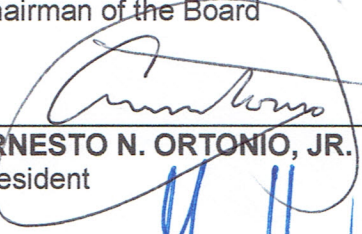
STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN

The Management of **PNX-Udenna Insurance Brokers, Inc.** is responsible for all information and representations contained in the Annual Income Tax Return for the period ended December 31, 2022. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value-added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the period ended December 31, 2022 and the accompanying Annual Income Tax Return are in accordance with the books and records of **PNX-Udenna Insurance Brokers, Inc.** complete and correct in all material respects. Management likewise affirms that:

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

  
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**DENNIS A. UY**  
Chairman of the Board

  
\_\_\_\_\_  
**ERNESTO N. ORTONIO, JR.**  
President

  
\_\_\_\_\_  
**CHERYLYN C. UY**  
Corporate Treasurer

**PNX-UDENNA INSURANCE BROKERS, INC.**

Principal Address: Stella Hizon Reyes Road, Bo. Pampanga, Lanang Davao City

Office Address: Bays 5 & 6, 6<sup>th</sup> Flr., Bormaheco Bldg.

J.P Laurel Ave., Davao City

Telephone Nos.: (082) 299-2606; (082)225-0328

# Report of Independent Certified Public Accountants to Accompany Income Tax Return

**Punongbayan & Araullo**

20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

**The Board of Directors**  
**PNX-Udenna Insurance Brokers, Inc.**  
*(A Wholly Owned Subsidiary of*  
*Udenna Management & Resources Corp.)*  
Bays 5 & 6, 6/F Bormaheco Bldg.  
J.P. Laurel Avenue, Davao City

We have audited the financial statements of PNX-Udenna Insurance Brokers, Inc. (the Company) for the year ended December 31, 2022, on which we have rendered the attached report dated May 31, 2023.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

## **PUNONGBAYAN & ARAULLO**



**By: Mary Grace A. Punay**  
Partner

CPA Reg. No. 0116576  
TIN 244-931-755  
PTR No. 7962301, January 13, 2023, City of Davao  
SEC Group A Accreditation  
Partner - No. 116576-SEC (until financial period 2025)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002511-043-2021 (until Nov. 9, 2024)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

May 31, 2023

**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
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## Report of Independent Auditors

**The Board of Directors**  
**PNX-Udenna Insurance Brokers, Inc.**  
*(A Wholly Owned Subsidiary of*  
*Udenna Management & Resources Corp.)*  
Bays 5 & 6, 6/F Bormaheco Bldg.  
J.P. Laurel Avenue, Davao City

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of PNX-Udenna Insurance Brokers, Inc. (the Company), which comprise the statements of financial position as at December 31, 2022 and 2021, and the 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, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### *Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' 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 audits 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 PFRS, 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.

### ***Auditors' 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 auditors' 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 PSA 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 PSA, 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 auditors' 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 auditors' 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 Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2022 required by the Bureau of Internal Revenue and Insurance Commission as disclosed in Notes 19 and 20, respectively, to the financial statements are presented for purposes of additional analysis and compliance and are not required parts of the basic financial statements prepared in accordance with PFRS. Such supplementary information are the responsibility of management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **PUNONGBAYAN & ARAULLO**



**By: Mary Grace A. Punay**  
Partner

CPA Reg. No. 0116576  
TIN 244-931-755  
PTR No. 7962301, January 13, 2023, City of Davao  
SEC Group A Accreditation  
Partner - No. 116576-SEC (until financial period 2025)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002511-043-2021 (until Nov. 9, 2024)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

May 31, 2023

**PNX-UDENNA INSURANCE BROKERS, INC.**  
**(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**  
**(Amounts in Philippine Pesos)**

	Notes	2022	2021
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	P 60,285,515	P 47,598,608
Receivable from insurance companies' clients	2	-	68,373,578
Commission receivables	2	13,258,523	3,601,066
Other receivables	2	1,107,937	569,687
Prepayments	2	779,378	996,687
Total Current Assets		75,431,353	121,139,626
<b>NON-CURRENT ASSETS</b>			
Property and equipment - net	7	7,841,965	6,630,004
Security deposits	8	146,326	146,326
Deferred tax assets	14	3,046,226	3,416,759
Total Non-current Assets		11,034,517	10,193,089
<b>TOTAL ASSETS</b>		<b>P 86,465,870</b>	<b>P 131,332,715</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Payable to insurance companies	2	P 141,815	P 68,410,278
Notes payable	10	1,107,371	270,236
Lease liability	8	369,410	309,680
Income tax payable		1,137,189	-
Accrued expenses and other liabilities	9	3,678,491	3,076,705
Total Current Liabilities		6,434,276	72,066,899
<b>NON-CURRENT LIABILITIES</b>			
Lease liability	8	3,761,685	4,131,095
Notes payable	10	1,570,690	560,632
Retirement benefit payable	13	11,357,793	13,041,824
Total Non-current Liabilities		16,690,168	17,733,551
Total Liabilities		23,124,444	89,800,450
<b>EQUITY</b>			
Share capital	16	20,000,000	20,000,000
Revaluation reserves	13	1,849,070	-
Retained earnings	16	41,492,356	21,532,265
Total Equity		63,341,426	41,532,265
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 86,465,870</b>	<b>P 131,332,715</b>

*See Notes to Financial Statements.*

**PNX-UDENNA INSURANCE BROKERS, INC.**  
**(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
**(Amounts in Philippine Pesos)**

	Notes	<u>2022</u>	2021 (As Restated - see Note 2)
<b>COMMISSIONS REVENUE</b>	2	<b>P 48,021,502</b>	P 37,834,497
<b>COST OF SERVICE</b>	11	<u>2,903,562</u>	<u>1,735,677</u>
<b>GROSS PROFIT</b>		<u>45,117,940</u>	<u>36,098,820</u>
<b>ADMINISTRATIVE EXPENSES</b>	12	<b>18,419,132</b>	28,711,586
<b>DONATION AND CONTRIBUTION</b>	12	<u>335,524</u>	<u>379,000</u>
		<u>18,754,656</u>	<u>29,090,586</u>
<b>OPERATING PROFIT</b>		<u>26,363,284</u>	<u>7,008,234</u>
<b>OTHER INCOME (COSTS)</b>			
Gain on sale of property and equipment	7	<b>177,500</b>	545,447
Finance cost - net	6, 8, 10	<b>( 49,014 )</b>	( 220,752 )
Miscellaneous income		<u>265,610</u>	<u>114,153</u>
		<u>394,096</u>	<u>438,848</u>
<b>PROFIT BEFORE TAX</b>		<b>26,757,380</b>	7,447,082
<b>TAX EXPENSE</b>	14	<u>6,797,289</u>	<u>1,718,907</u>
<b>NET PROFIT</b>		<u>19,960,091</u>	<u>5,728,175</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Item that will not be reclassified subsequently     to profit or loss</b>			
Remeasurement of post-employment benefit obligation	13	<b>2,465,427</b>	-
Tax expense	14	<b>( 616,357 )</b>	-
<b>Other Comprehensive Income - net of tax</b>		<u>1,849,070</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P <u>21,809,161</u></b>	<b>P <u>5,728,175</u></b>

*See Notes to Financial Statements.*



**PNX-UDENNA INSURANCE BROKERS, INC.**  
**(A Wholly Owned Subsidiary of Udena Management & Resources Corp.)**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
**(Amounts in Philippine Pesos)**

	Notes	2022	2021
<b>SHARE CAPITAL</b>			
Common shares - P100 par value			
Authorized, issued and outstanding - 200,000 shares	16	<b>P 20,000,000</b>	<b>P 20,000,000</b>
<b>REVALUATION RESERVES</b>	13	<b>1,849,070</b>	-
<b>RETAINED EARNINGS</b>			
<b>Appropriated:</b>			
Appropriation during the year	16	<b>12,000,000</b>	12,000,000
<b>Unappropriated:</b>			
Balance at beginning of year		<b>9,532,265</b>	15,804,090
Net profit for the year		<b>19,960,091</b>	5,728,175
Appropriation during the year		-	( 12,000,000 )
Balance at end of year	16	<b>29,492,356</b>	9,532,265
Total retained earnings		<b>41,492,356</b>	21,532,265
<b>TOTAL EQUITY</b>		<b>P 63,341,426</b>	<b>P 41,532,265</b>

*See Notes to Financial Statements.*

**PNX-UDENNA INSURANCE BROKERS, INC.**  
**(A Wholly Owned Subsidiary of Udena Management & Resources Corp.)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**  
**(Amounts in Philippine Pesos)**

	Notes	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 26,757,380	P 7,447,082
Adjustments for:			
Depreciation and amortization	7, 8	1,757,329	1,439,183
Interest expense	8, 10	514,101	394,477
Interest income	6	( 465,087 )	( 173,725 )
Gain on sale of property and equipment	7	( 177,500 )	( 545,447 )
Retirement benefit expense	13	-	13,041,824
Operating profit before working capital changes		28,386,223	21,603,394
Decrease (increase) in receivable from insurance companies' clients		68,373,578	( 12,583,960 )
Decrease (increase) in commission receivables		( 9,657,457 )	938,408
Increase in other receivables		( 538,250 )	( 569,687 )
Increase in prepayments		( 4,814,202 )	( 5,634,159 )
Increase (decrease) in payable to insurance companies		( 68,268,463 )	12,060,190
Increase (decrease) in accrued expense and other liabilities		336,176	( 3,832,277 )
Cash generated from operations		13,817,605	11,981,909
Interest received		465,087	173,725
Cash paid for income taxes		( 93,017 )	( 303,553 )
Net Cash From Operating Activities		14,189,675	11,852,081
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment	7	( 486,441 )	( 229,018 )
Proceeds from sale of equipment	7	177,500	545,447
Net Cash From (Used in) Investing Activities		( 308,941 )	316,429
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of lease liabilities	8, 18	( 674,286 )	( 644,655 )
Repayments of notes payable	10, 18	( 635,656 )	( 49,132 )
Interest paid	10	( 149,495 )	( 6,041 )
Dividends paid	16, 18	-	( 7,000,000 )
Cash Used in Financing Activities		( 1,459,437 )	( 7,699,828 )
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>		265,610	114,153
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		12,686,907	4,582,835
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		47,598,608	43,015,773
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		P 60,285,515	P 47,598,608

**Supplemental Information on Non-cash Investing Activity –**

In 2022 and 2021, the Company acquired a transportation equipment amounting to P2,825,000 and P982,142, part of which amounting to P2,482,849 and P880,000, respectively, was acquired through mortgage, which remained outstanding as of December 31, 2022 and 2021 (see Notes 7 and 10).

*See Notes to Financial Statements.*

**PNX-UDENNA INSURANCE BROKERS, INC.**  
*(A Wholly Owned Subsidiary of Udenna Management & Resources Corp.)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**  
*(Amounts in Philippine Pesos)*

**1. GENERAL INFORMATION**

**1.1 Corporate Information**

PNX-Udenna Insurance Brokers, Inc. (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on September 5, 2006. The Company is presently engaged in and carrying on the business of or act as insurance broker of any domestic and/or foreign companies, as the Philippine laws may allow, for the purpose of carrying on any and all objectives and purposes for which the Company is created.

The Company is a wholly owned subsidiary of Udenna Management & Resources Corp. (UMRC or the Parent Company), a company incorporated and domiciled in the Philippines. The Company's ultimate parent company is Udenna Corporation (Udenna). UMRC is engaged in providing management, investment and technical advice for commercial, industrial, manufacturing and other kinds of enterprises. Udenna, on the other hand, is primarily organized to purchase, acquire, take over and manage all or any part of the rights, assets, business and property; to undertake and assume the liabilities of any person, firm, association, partnership, syndicate of corporation; and, to engage in the distribution, selling, importation, installation of pollution control devices, units and services, and all other pollution control related products and emission test servicing. The registered office of the Parent Company and ultimate parent company is located at Stella Hizon Reyes Road, Bo. Pampanga, Davao City, and their principal place of business is located at Global Synergy Compound, Carmen St. Toyozu Road, Bo. Obrero, Davao City.

The registered office of the Company is located at Bays 5 & 6, 6/F, Bormaheco Bldg., J.P. Laurel Avenue, Davao City, while the principal place of business is located at Stella Hizon Reyes Road, Bo. Pampanga, Davao City.

**1.2 Continuing Impact of COVID-19 Pandemic on Company's Business**

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved because of reopening of local and international travels and loosening of health and safety protocols and restrictions. As a result, overall continuing impact of the COVID-19 pandemic to the Company is continuously improving and Company's operations is slowly going back to its pre-pandemic levels.

In 2022 and 2021, the Company has taken the following measures to mitigate the adverse effects of the COVID-19 pandemic to the Company's business:

- conducted virtual and face-to-face offers to prospect clients to cope up with the decrease in revenue in 2021; and,
- employed extensive effort to meet the collection target and budget for the year.

As a result of the actions taken by management, the Company's operations improved in 2022 where total revenues increased by P10,187,005 or 26.9% compared to that of 2021, as a result of continuation of business operations and economic improvement in the country.

Management will continue to take actions to continually improve the operations as the need arises. Based on the foregoing improvements, management projects that the Company would continue to report positive results of operations and would remain liquid to meet current obligations as they fall due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern due to the effects of the pandemic.

### **1.3 Approval of Financial Statements**

The financial statements of the Company as of and for the year ended December 31, 2022 (including the comparative financial statements as of and for the year ended December 31, 2021) were authorized for issue by the Company's Board of Directors (BOD) on May 31, 2023.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of Preparation of Financial Statements**

#### **(a) Statement of Compliance with Philippine Financial Reporting Standards**

The financial statements of the Company have been prepared in accordance with Philippines Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### **(b) Presentation of Financial Statements**

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expense in a single statement of comprehensive income.

The Company presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Reclassification of Accounts*

Certain account pertaining to Donation and Contribution in the 2021 financial statements was reclassified to conform to the current year presentation and classification, and in accordance with Insurance Commission (IC) Circular Letter (CL) No. 2021-69, *Issuance and Implementation of the Revised Standard Chart of Accounts (SCA)*. The reclassification did not have a significant impact in the 2021 statement of financial position, statement of changes in equity, and statement of cash flows.

(d) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

**2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2022 that are Relevant to the Company*

The Company adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PAS 16 (Amendments)	:	Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	:	Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)		
PFRS 9 (Amendments)	:	Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities
PFRS 16 (Amendments)	:	Leases – Lease Incentives

Discussed below and in the succeeding page are the relevant information about these pronouncements.

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use*. The amendments prohibit 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 cost of producing those items, in profit or loss. The application of these amendments had no significant impact on the Company's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*. The amendments specify that when addressing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Company's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.
- (iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which do not have significant impact are relevant to the Company's financial statements:
- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The amendments clarify 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.
  - Illustrative Examples Accompanying PFRS 16, *Leases - Lease Incentives*. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.
- (b) *Effective in 2022 that are not Relevant to the Company*

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following are not relevant to the Company's financial statements:

- (i) PFRS 3 (Amendments), *Business Combinations - Reference to the Conceptual Framework*
- (ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments are not relevant to the Company:
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*
  - PAS 41, *Agriculture - Taxation in Fair Value Measurements*

(c) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements - Disclosure of Accounting Policies* (effective from January 1, 2023)
- (iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (iv) PAS 12 (Amendments), *Income Taxes - Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)
- (v) PFRS 17, *Insurance Contracts - Insurance Contracts* (effective from January 1, 2023)
- (vi) PFRS 17 (Amendments), *Insurance Contracts - Initial Application of PFRS 17 and PFRS 9 - Comparative Information* (effective from January 1, 2023)

### **2.3 Current versus Non-current Classification**

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

- expected to be realized or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve month after the reporting period; or,
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or,
- there is no unconditional right to defer the settlement of the liability for at least 12 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.

### **2.4 Financial Instruments**

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) *Financial Assets*

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instruments. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(i) *Classification and Measurement of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets currently relevant to the Company is described below and in the succeeding page.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Company's financial assets at amortized cost are presented in the statement of financial position as Cash and Cash Equivalents, Receivable from Insurance Companies' Clients, Commission Receivables, Other Receivables (except Advances subject for Liquidation and Advances to officers and employees) and Security Deposits.

Receivable from insurance companies' clients pertains to amounts receivable from policy holders or clients for payment of insurance premium to the insurance companies.

Commission receivables pertain to outstanding commission revenues from insurance companies.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.



For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These general include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

In accordance with IC CL No. 2018-17, the Company's Receivable from Companies' Clients is presented at gross amount in the statement of financial position.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of comprehensive income under Other Income (Costs).

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(ii) *Impairment of Financial Assets*

At the end of the reporting period, the Company assesses and recognizes allowance for ECL on its financial assets measured at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company recognizes lifetime ECL for receivables. The ECL on these assets are estimated by applying the simplified approach using a provision matrix developed based on the Company's historical credit loss experience and credit information that are specific to the debtors, adjusted for general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. These assets are assessed for impairment on a collective basis based on shared credit risk characteristics.

The Company determines whether there has been a significant increase in credit risk for financial asset since initial recognition by comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss given default* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.
- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Company recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

(iii) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) *Financial Liabilities*

Financial liabilities, which include payable to insurance companies, notes payable, lease liability and accrued expenses and other liabilities (except tax-related and premium contributions payables), are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on the financial liability are recognized as an expense in profit or loss under the caption Finance cost - net under Other Income (Costs) in the statement of comprehensive income.

Payable to insurance companies pertains to premiums of insurance companies' clients that are still to be remitted and remain unpaid at the end of the year.

Payable to insurance companies, notes payable, and accrued expenses and other liabilities are recognized initially at their fair values and subsequently measured at amortized cost, using the effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Financial liabilities are also derecognized when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

**2.5 Prepayments and Other Assets**

Prepayments pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

**2.6 Property and Equipment**

All items of property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

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

Transportation equipment	3-5 years
Office equipment	1-2 years
Furniture and fixtures	1-2 years

Leasehold improvements are amortized over the terms of the related leases or the useful lives of the improvements of two years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

The residual values, estimated useful lives and method of depreciation of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment including the related accumulated depreciation and impairment losses, if any, 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.

## **2.7 Provisions and Contingencies**

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## **2.8 Revenue and Expense Recognition**

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Company for services rendered, excluding Value-added tax (VAT) and discounts.

To determine whether to recognize revenue, the Company follows a five-step process:

- (1) identifying the contract with a customer;
- (2) identifying the performance obligation;
- (3) determining the transaction price;
- (4) allocating the transaction price to the performance obligations; and,
- (5) recognizing revenue when/as performance obligations are satisfied.

The Company determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

- (i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
- (iii) the payment terms for the goods or services to be transferred or performed can be identified;
- (iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- (v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- (i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- (ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- (iii) the Company's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer.

If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

The Company assesses its revenue agreements against the specific criteria in order to determine if it is acting as principal or agent. Both the legal form and the substance of the agreement are considered to determine each party's respective roles in the agreement. Revenue is recorded at gross when acting as a principal while only net revenues are considered if only an agency services exists.

In addition, specific recognition criteria for commissions revenue must be met before revenue is recognized. Commissions revenue is recognized at a point in time when premium payments have been earned by the insurance companies from the insurance companies' clients.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis.

## **2.9 Leases – Company as a Lessee**

The Company accounts for its leases as follows:

For any new contracts entered into, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.11).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low value asset using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use asset is presented as part of property and equipment while lease liability is presented separately from other liabilities.

## **2.10 Foreign Currency Transactions and Translation**

The accounting records of the Company are maintained in Philippines pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

## **2.11 Impairment of Non-financial Assets**

The Company's property and equipment, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profile, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

## **2.12 Employee Benefits**

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plan and other employee benefits which are discussed below and in the succeeding page.

### **(a) Post-employment Defined Benefit Plan**

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. The Company's defined benefit post-employment plan covers all regular full-time employees.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Salaries, wages and benefits under Administrative Expenses in the statement of comprehensive income.

Past service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

*(b) Short-term employee benefits*

The Company provides short-term employment benefits to employees, which are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**2.13 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax income in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.



Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

#### ***2.14 Related Party Relationships and Transactions***

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

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

#### ***2.15 Equity***

Share capital represents the nominal value of shares that have been issued.

Revaluation reserves comprise remeasurements of post-employment defined benefit obligation.

Retained earnings represent all current and prior period results of operations as reported in profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

#### ***2.16 Events After the End of the Reporting Period***

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

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### 3.1 Critical Management Judgment in Applying Accounting Policies

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

(a) *Determination of Timing of Satisfaction of Performance Obligations*

The Company determines that its commissions revenue from insurance brokerage services shall be recognized at a point in time when premium payments have been received from the insurance company's clients.

(b) *Determination of ECL on Financial Asset at Amortized Cost*

The Company's policy on determination of ECL on its financial assets is discussed in Note 2.4(a)(ii). Based on management's assessment, no allowance for ECL is required to be recognized as of December 31, 2022 and 2021. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's financial asset at amortized cost are disclosed in Note 4.2.

(c) *Business Model Assessment*

The Company's classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

*(d) Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For the lease of office, the factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised or not exercised, or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

*(e) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.7 and disclosures on relevant contingencies are presented in Note 17.

**3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

*(a) Estimation of Allowance for ECL*

The Company measures impairment of financial asset at amortized cost at an amount equal to lifetime ECL. The expected credit losses on commission receivables and other receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors (including possible offsetting of outstanding liability with the debtor), general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Based on management's assessment, no allowance for ECL on receivable from insurance companies' clients, commission receivables and security deposits are required to be recognized as of December 31, 2022 and 2021 [see Note 4.2(b)].

*(b) Estimation of Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amount of property and equipment is presented in Note 7. Based on management's assessment as of December 31, 2022 and 2021, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(c) Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount 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 assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2022 and 2021 will be fully utilized in the coming years. The carrying value of the deferred tax assets as of December 31, 2022 and 2021 is disclosed in Note 14.

*(d) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.11). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, no impairment loss was recognized on the Company's non-financial assets in 2022 and 2021.

*(e) Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(f) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 13.2.

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to a variety of financial risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated with its Parent Company, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes, nor does it write options. The most significant financial risks to which the Company is exposed to are described below and in the succeeding pages.

##### **4.1 Market Risk**

The Company is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk, which result from its operating, investing and financing activities.

(a) *Foreign Currency Risk*

The Company has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency. Exposure to currency exchange rates arise from the Company's U.S. dollar denominated cash in bank.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated cash in bank, translated into Philippine pesos at the closing rate, amounted to P3,802,096 and P2,016,347 as of December 31, 2022 and 2021, respectively.

Cash in bank subject to foreign currency risk is tested on a reasonably possible change of +/-15.94% in 2022 and +/-11.30% in 2021. This percentage has been determined based on the average market volatility exchange rates, using standard deviation, in the previous 12 months at a 99.00% confidence level.

The change in percentage would affect profit before tax by +/- P606,054 and equity after tax by +/- P454,541 in 2022 and profit before tax by +/- P159,654 and equity after tax by +/- P119,741 in 2021.

(b) *Interest Rate Sensitivity*

As of December 31, 2022 and 2021, the Company is exposed to changes in market interest rates through its cash in banks, which are subject to variable interest rates. However, management believes that the related interest rate risk exposure is not significant. All other financial assets and financial liabilities are either non-interest-bearing or subject to fixed interest rates.

**4.2 Credit Risk**

Credit risk is the risk that the counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from providing services to customers including related parties and placing deposits in banks.

The Company continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements, as summarized below.

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	6	<b>P 60,215,506</b>	P 47,538,608
Receivable from insurance companies' clients		-	68,373,578
Commission receivables		<b>13,258,523</b>	3,601,066
Other receivables		<b>849,723</b>	539,686
Security deposits	8	<u><b>146,326</b></u>	<u>146,326</u>
		<u><b>P 74,470,078</b></u>	<u>P 120,199,264</u>

None of the financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash and cash equivalents are cash in banks and short-term placements, which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

(b) *Receivable from Insurance Companies' Clients, Commission Receivables, Other Receivables and Security Deposits*

The Company applies the PFRS 9 simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables and other receivables. To measure the ECL, receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The ECL are determined based on the historical loss rates adjusted by current and forward-looking information affecting the ability of the counter parties to settle the receivables. Based on management's assessment, ECL on receivable from insurance companies' clients, commission receivables, other receivables and security deposits is insignificant and hence, not recognized as of December 31, 2022 and 2021.

**4.3 Liquidity Risk**

The Company maintains cash to meet its liquidity requirements for up to 30-day periods. Funding for liquidity needs is additionally secured by advances from Parent Company.

As of December 31, 2022 and 2021, the Company's financial liabilities have contractual maturities, which are presented below.

	<b>2022</b>					
	<b>Current</b>			<b>Non-current</b>		
	<b>Within 6 months</b>	<b>6 to 12 months</b>		<b>1 to 3 years</b>		
Payable to insurance companies	P 141,815	P -		P -		
Notes payable	647,622	647,622		1,702,415		
Lease liability	348,666	356,733		4,814,925		
Accrued expenses and other liabilities	<u>3,533,610</u>	<u>-</u>		<u>-</u>		
	<b><u>P 4,671,713</u></b>	<b><u>P 1,004,355</u></b>		<b><u>P 6,517,340</u></b>		
	<b>2021</b>					
	<b>Current</b>			<b>Non-current</b>		
	<b>Within 6 months</b>	<b>6 to 12 months</b>		<b>1 to 3 years</b>		
Payable to insurance companies	P 68,410,278	P -		P -		
Notes payable	165,516	165,516		606,892		
Lease liability	333,302	340,984		5,520,324		
Accrued expenses and other liabilities	<u>2,397,002</u>	<u>-</u>		<u>-</u>		
	<b><u>P 71,306,098</u></b>	<b><u>P 506,500</u></b>		<b><u>P 6,127,216</u></b>		

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

## 5. CATEGORIES AND FAIR VALUE MEASUREMENT AND DISCLOSURES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 5.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurements*, financial assets and financial liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### 5.2 Financial Instruments Measured at Fair Value

The Company has no financial assets and financial liabilities measured at fair value as of December 31, 2022 and 2021.

### 5.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below and in the succeeding page summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

		<b>2022</b>			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Financial Assets</b>	<u>Notes</u>				
Loans and receivables:					
Cash and cash equivalents	6	P 60,285,514	P -	P -	P 60,285,514
Commission receivables		-	-	13,258,523	13,258,523
Other receivables		-	-	849,723	849,723
Security deposits	8	-	-	146,326	146,326
		<b><u>P 60,285,514</u></b>	<b><u>P -</u></b>	<b><u>P 14,254,572</u></b>	<b><u>P 74,540,086</u></b>



		<b>2022</b>			
<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Payable to insurance companies	P -	P -	P 141,815	P 141,815	
Notes payable	10 -	-	2,678,061	2,678,061	
Lease liability	8 -	-	4,131,095	4,131,095	
Accrued expenses and other liabilities	9 -	-	<u>3,533,610</u>	<u>3,533,610</u>	
	<u>P -</u>	<u>P -</u>	<u>P 10,484,581</u>	<u>P 10,484,581</u>	
		<b>2021</b>			
<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents	6 P 47,598,608	P -	P -	P 47,598,608	
Receivable from insurance companies' clients	-	-	68,373,578	68,373,578	
Commission receivables	-	-	3,601,066	3,601,066	
Other receivables	-	-	539,686	539,686	
Security deposits	8 -	-	<u>146,326</u>	<u>146,326</u>	
	<u>P 47,598,608</u>	<u>P -</u>	<u>P 72,660,656</u>	<u>P 120,259,264</u>	
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Payable to insurance companies	P -	P -	P 68,410,278	P 68,410,278	
Notes payable	10 -	-	830,869	830,869	
Lease liability	8 -	-	4,440,775	4,440,775	
Accrued expenses and other liabilities	9 -	-	<u>2,397,002</u>	<u>2,397,002</u>	
	<u>P -</u>	<u>P -</u>	<u>P 76,078,924</u>	<u>P 76,078,924</u>	

For financial assets and financial liabilities, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

#### **5.4 Fair Value Measurement for Non-financial Assets**

The Company has no non-financial assets measured at fair value as of December 31, 2022 and 2021.

## 6. CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents as of December 31 are as follows:

	<u>2022</u>	<u>2021</u>
Cash on hand	<b>P 70,008</b>	P 60,000
Clients' money	<b>141,815</b>	36,432
Cash in banks	<b>38,930,580</b>	26,591,095
Short-term placements	<b><u>21,143,112</u></b>	<u>20,911,081</u>
	<b><u>P 60,285,515</u></b>	<u>P 47,598,608</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements for 2022 and 2021 are made for period of up to 30 days and earn effective interest ranging from 0.10% to 0.25% and from 0.50% to 5.00%, respectively. Interest earned in 2022 and 2021 amounting to P465,087 and P173,725, respectively, is presented as part of Finance cost - net under Other Income (Costs) in the statements of comprehensive income.

## 7. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2022 and 2021 are shown below.

	<u>Transportation Equipment</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Right-of-Use Asset</u>	<u>Total</u>
December 31, 2022					
Cost	P 5,380,179	P 1,396,947	P 1,422,027	P 5,115,784	P 13,314,937
Accumulated depreciation and amortization	( 2,017,625 )	( 1,274,899 )	( 539,133 )	( 1,641,315 )	( 5,472,972 )
Net carrying amount	<b><u>P 3,362,554</u></b>	<b><u>P 122,048</u></b>	<b><u>P 882,894</u></b>	<b><u>P 3,474,469</u></b>	<b><u>P 7,841,965</u></b>
December 31, 2021					
Cost	P 3,495,714	P 1,252,657	P 1,422,027	P 5,115,784	P 11,286,182
Accumulated depreciation and amortization	( 2,265,726 )	( 849,230 )	( 411,486 )	( 1,129,736 )	( 4,656,178 )
Net carrying amount	<b><u>P 1,229,988</u></b>	<b><u>P 403,427</u></b>	<b><u>P 1,010,541</u></b>	<b><u>P 3,986,048</u></b>	<b><u>P 6,630,004</u></b>
January 1, 2021					
Cost	P 3,604,464	P 1,325,781	P 1,422,027	P 5,115,784	P 11,468,056
Accumulated depreciation and amortization	( 2,907,241 )	( 698,650 )	( 283,839 )	( 618,157 )	( 4,507,887 )
Net carrying amount	<b><u>P 697,223</u></b>	<b><u>P 627,131</u></b>	<b><u>P 1,138,188</u></b>	<b><u>P 4,497,627</u></b>	<b><u>P 6,960,169</u></b>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2022 and 2021 is shown below and in the succeeding page.

	<u>Transportation Equipment</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Right-of-Use Asset</u>	<u>Total</u>
Balance at January 1, 2022,					
net of accumulated depreciation	P 1,229,988	P 403,427	P 1,010,541	P 3,986,048	P 6,630,004
Additions	2,825,000	144,290	-	-	2,969,290
Cost of assets disposed	( 940,535 )	-	-	-	( 940,535 )
Accumulated depreciation of assets disposed	940,535	-	-	-	940,535
Depreciation charges for the year	( 692,434 )	( 425,669 )	( 127,647 )	( 511,579 )	( 1,757,329 )
Balance at December 31, 2022,					
net of accumulated depreciation	<b><u>P 3,362,554</u></b>	<b><u>P 122,048</u></b>	<b><u>P 882,894</u></b>	<b><u>P 3,474,469</u></b>	<b><u>P 7,841,965</u></b>

	<u>Transportation Equipment</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Right-of-Use Asset</u>	<u>Total</u>
Balance at January 1, 2021, net of accumulated depreciation	P 697,223	P 627,131	P 1,138,188	P 4,497,627	P 6,960,169
Additions	982,142	126,876	-	-	1,109,018
Cost of assets disposed	( 1,090,892 )	( 200,000 )	-	-	( 1,290,892 )
Accumulated depreciation of assets disposed	1,090,892	200,000	-	-	1,290,892
Depreciation charges for the year	( <u>449,377</u> )	( <u>350,580</u> )	( <u>127,647</u> )	( <u>511,579</u> )	( <u>1,439,183</u> )
Balance at December 31, 2021, net of accumulated depreciation	<u>P 1,229,988</u>	<u>P 403,427</u>	<u>P 1,010,541</u>	<u>P 3,986,048</u>	<u>P 6,630,004</u>

In 2022 and 2021, the Company disposed a fully depreciated transportation equipment with acquisition cost of P940,535 and P1,090,892, respectively. Gain on disposal from the disposal of transportation equipment amounted to P177,500 and P545,447 in 2022 and 2021, respectively, and is presented in the statements of comprehensive income as part of Other Income (Costs).

The amount of depreciation and amortization is presented as part of Administrative Expenses in the statements of comprehensive income (see Note 12). As of December 31, 2022 and 2021, the cost of fully depreciated property and equipment still used in operations amounted to P1,758,806 and P3,470,809, respectively.

## 8. LEASES

The Company has lease for certain office space. Such lease is reflected on the statements of financial position as a right-of-use asset, presented as part of property and equipment, and a lease liability with exception of short-term lease and lease of low-value underlying asset. Variable lease payments which do not depend on an index, or a rate are excluded from the initial measurement of the lease liability and asset.

The lease generally imposes a restriction that, unless there is a contractual right for the Company to sublease the asset to another party, the right-of-use asset can only be used by the Company. The lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The lease does not contain an option to purchase the underlying lease asset outright at the end of the lease but contains a provision to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For such lease, the Company must keep the property in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must ensure the leased asset and incur maintenance fees on the office space in accordance with the lease contract.

The Company has only one right-of-use asset leased, which pertains to office space with floor area of 108.39 square meters (sq.m.). Lease contract provides a monthly rental payment of P53,112 for the first two years with 5% escalation rate commencing on the third year of the lease term and deposit of P146,326, which is refundable at the end of lease term. In addition to monthly rent, the Company shall also pay common usage area fee of P40 per sq.m. Term of the lease is ten years, which commenced on October 16, 2019 and will expire on October 16, 2029, renewable upon agreement by both parties.

### 8.1 Lease Liability

Lease liability is presented in the statements of financial position as follows:

	<u>2022</u>	<u>2021</u>
Current	<b>P 369,410</b>	P 309,680
Non-current	<u><b>3,761,685</b></u>	<u>4,131,095</u>
	<u><b>P 4,131,095</b></u>	<u>P 4,440,775</u>

The Company may pre-terminate the lease upon 180 days written notice of such intention. In such instance, the security deposit shall be forfeited in favor of the lessor as damages and such forfeiture shall constitute full and complete indemnification by the Company of any and all damages that may be sustained by the lessor as a result of such pre-termination.

Interest expense in relation to the lease liability amounted to P364,606 and P388,436 in 2022 and 2021, respectively, are presented as part of Finance cost - net under Other Income (Costs) in the statements of comprehensive income.

The lease liability is secured by the related underlying asset. The undiscounted maturity analysis of lease liability at December 31 are as follows:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>5 to 10 years</u>	<u>Total</u>
<b>December 31, 2022</b>							
Lease payments	P 705,399	P 738,067	P 772,368	P 808,384	P 847,836	P 1,648,270	P 5,520,324
Finance charges	( 335,989)	( 302,029)	( 262,111)	( 215,562)	( 159,214)	( 114,324)	( 1,389,229)
Net present value	<u><b>P 369,410</b></u>	<u><b>P 436,038</b></u>	<u><b>P 510,257</b></u>	<u><b>P 592,822</b></u>	<u><b>P 688,622</b></u>	<u><b>P 1,533,946</b></u>	<u><b>P 4,131,095</b></u>
<b>December 31, 2021</b>							
Lease payments	P 674,286	P 705,399	P 738,067	P 772,368	P 808,384	P 2,496,106	P 6,194,610
Finance charges	( 364,606)	( 335,989)	( 302,029)	( 262,111)	( 215,562)	( 273,538)	( 1,753,835)
Net present value	<u><b>P 309,680</b></u>	<u><b>P 369,410</b></u>	<u><b>P 436,038</b></u>	<u><b>P 510,257</b></u>	<u><b>P 592,822</b></u>	<u><b>P 2,222,568</b></u>	<u><b>P 4,440,775</b></u>

### 8.2 Additional Profit or Loss and Cash Flow

The total cash outflow in respect of leases amounted to P674,286 and P644,655 in 2022 and 2021, respectively. Interest expense in relation to lease liabilities amounted to P364,606 and P388,436 in 2022 and 2021, respectively, is presented as part of Finance cost - net under Other Income (Costs) in the statements of comprehensive income.

## 9. ACCRUED EXPENSES AND OTHER LIABILITIES

The Company's accrued expenses and other liabilities are presented as follows:

	<u>2022</u>	<u>2021</u>
Accrued expenses	<b>P 3,065,867</b>	P 1,738,157
Withholding tax payable	<b>104,422</b>	251,902
Premium contributions payable	<b>40,459</b>	43,124
VAT payable	-	384,677
Others	<b><u>467,743</u></b>	<u>658,845</u>
	<b><u>P 3,678,491</u></b>	<u>P 3,076,705</u>

Accrued expenses mostly pertain to payables to various suppliers that remain unpaid at the end of the year that are expected to be settled within 12 months from the end of the reporting period.

## 10. NOTES PAYABLE

Notes payable represents mortgage loan, which bears an interest rate of 8.50% per annum over a term of 36 months.

Notes payable is presented in the statements of financial position as follows:

	<u>2022</u>	<u>2021</u>
Current	<b>P 1,107,371</b>	P 270,236
Non-current	<b><u>1,570,690</u></b>	<u>560,632</u>
	<b><u>P 2,678,061</u></b>	<u>P 830,868</u>

A reconciliation of the carrying amount of notes payable at the end and beginning of the year is shown below.

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	<b>P 830,868</b>	P -
Additional mortgage	<b>2,482,849</b>	880,000
Repayments	<b><u>(635,656)</u></b>	<u>(49,132)</u>
	<b><u>P 2,678,061</u></b>	<u>P 830,868</u>

Interest expense on notes payable amounting to P149,495 and P6,041 in 2022 and 2021, respectively, is presented as part of Finance cost - net under Other Income (Costs) in the statements of comprehensive income.

## 11. COST OF SERVICE

The details of cost of service are shown below (see Note 12).

	<u>2022</u>	<u>2021</u>
Travel and transportation	<b>P 1,704,816</b>	P 361,722
Commission	<b>479,874</b>	625,372
Fuel	<b>414,665</b>	277,570
Representation and entertainment	<b>170,585</b>	57,496
Miscellaneous	<b><u>133,622</u></b>	<u>413,517</u>
	<b><u>P 2,903,562</u></b>	<b><u>P 1,735,677</u></b>

Miscellaneous expense includes incentives and other related expenses, which are directly attributable to Company's operation, specifically in those expenses necessary to generate income.

## 12. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2022</u>	<u>2021</u> [As restated – see Note 2.1(c)]
Salaries, wages and benefits	13	<b>P 11,040,370</b>	P 23,408,709
Travel and transportation	11	<b>3,204,816</b>	361,722
Depreciation and amortization	7	<b>1,757,329</b>	1,439,183
Taxes and licenses		<b>770,518</b>	1,407,978
Insurance		<b>758,167</b>	738,074
Representation and entertainment	11	<b>170,585</b>	57,496
Utilities		<b>505,035</b>	365,560
Commission	11	<b>479,874</b>	625,372
Fuel	11	<b>414,665</b>	277,570
Donation and contribution	15.1	<b>335,524</b>	379,000
Christmas giveaway		<b>285,532</b>	234,721
Professional fees		<b>276,188</b>	350,393
Repairs and maintenance		<b>117,371</b>	134,677
Office supplies		<b>103,312</b>	93,822
Others		<b><u>1,438,932</u></b>	<u>951,986</u>
		<b><u>P 21,658,218</u></b>	<b><u>P 30,826,263</u></b>

Other expenses include membership, dues and subscription, postage and courier, and other miscellaneous expenses.

The operating expenses are classified in the statements of comprehensive income as follows:

	Note	<u>2022</u>	2021 [As restated – see Note 2.1(c)]
Cost of service	11	<b>P 2,903,562</b>	P 1,735,677
Administrative expenses		<b>18,419,132</b>	28,711,586
Donation and contribution		<u><b>335,524</b></u>	<u>379,000</u>
		<u><b>P 21,658,218</b></u>	<u>P 30,826,263</u>

### 13. EMPLOYEE BENEFITS

#### 13.1 Salaries, Wages and Benefits Expense

Details of salaries, wages and benefits are presented below.

	Notes	<u>2022</u>	<u>2021</u>
Short-term employee benefits		<b>P 10,258,974</b>	P 10,366,885
Post-employment defined benefit expense	13.2(b)	<u><b>781,396</b></u>	<u>13,041,824</u>
	12	<u><b>P 11,040,370</b></u>	<u>P 23,408,709</u>

#### 13.2 Post-employment Defined Benefit Plan

##### (a) Characteristics of the Defined Benefit Plan

The post-employment plan of the Company covers all regular full-time employees. The normal retirement age is 60 within a minimum of 5 years of credited service. The regulatory benefit is paid in lump sum upon retirement

##### (b) Explanation of Amounts Presented in the Financial Statements

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	<b>P 13,041,824</b>	P -
Actuarial gain on changes in financial assumptions	<b>( 2,465,427)</b>	-
Current service cost	<b>662,524</b>	363,219
Interest expense	<b>118,872</b>	-
Past service cost	<u>-</u>	<u>12,678,605</u>
Balance at end of year	<u><b>P 11,357,793</b></u>	<u>P 13,041,824</u>

The Company does not maintain plan asset to cover the post-employment defined benefit obligation as of December 31, 2022 and 2021.

Current service cost, interest expense and past service cost are presented as part of Salaries, wages and benefits under Administrative Expenses in the statements of comprehensive income.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the post-employment defined benefit plan are presented as follows:

	<u>Note</u>	<u>2022</u>	<u>2021</u>
<i>Reported in profit or loss:</i>	13.1		
Current service cost		<b>P 662,524</b>	P 363,219
Interest expense		<b>118,872</b>	-
Past service cost		<u>-</u>	<u>12,678,605</u>
		<b><u>P 781,396</u></b>	<b><u>P 13,041,824</u></b>
<i>Reported in other comprehensive income –</i>			
Actuarial gains arising from changes in financial assumptions		<b><u>P 2,465,427</u></b>	<b><u>P -</u></b>

Amount recognized in other comprehensive income was included within items that will not be reclassified subsequently to profit or loss. In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used in 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Discount rates	<b>7.22%</b>	5.09%
Expected rate of salary increases	<b>5.00%</b>	5.00%

There were no significant changes in the retirement profile, demographic and financial assumptions and other circumstances that could materially impact the valuation and remeasurements of the Company's post-employment defined benefit obligation as of December 31, 2022 from the assumptions and circumstances as of December 31, 2021.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) *Interest Rate Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.



(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2022 and 2021:

December 31, 2022

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
Discount rate	+/-1.00%	( P 22,229 )	P 27,627
Salary growth rate	+/-1.00%	57,352 (	42,050 )

December 31, 2021

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
Discount rate	+/-1.00%	( P 69,594 )	P 87,003
Salary growth rate	+/-1.00%	176,045 (	128,838 )

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Funding Arrangements and Expected Contributions*

As of December 31, 2022, the plan is underfunded by P11,078,428. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about 20 years' time when a significant number of employees is expected to retire.

The maturity profile for the next ten years of undiscounted expected benefit payments amount, which did not change significantly as of December 31, 2022 and 2021, from the plan follows:

	<u>2022</u>	<u>2021</u>
More than five years to ten years	P <b>9,626,698</b>	P 7,853,089
More than ten years	<u><b>22,348,178</b></u>	<u>21,860,651</u>
	<u><b>P 31,974,876</b></u>	<u>P 29,713,740</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 22 years.

#### 14. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in profit or loss and other comprehensive income are presented below.

	<u>2022</u>	<u>2021</u>
<i>Reported in profit or loss</i>		
Current tax expense:		
Regular corporate income tax (RCIT)	P <b>6,950,096</b>	P 5,354,191
Final tax at 20% and 15%	<b>93,017</b>	34,702
Effect of change in income tax rate in 2020	<u>-</u>	<u>( 383,057)</u>
	<u><b>7,043,113</b></u>	<u>5,005,836</u>
Deferred tax income arising from:		
Origination and reversal of temporary difference	<u>( <b>245,824</b>)</u>	<u>( 3,308,567)</u>
Effect of change in tax rate in 2020	<u>-</u>	<u>21,638</u>
	<u>( <b>245,824</b>)</u>	<u>( 3,286,929)</u>
	<u><b>P 6,797,289</b></u>	<u>P 1,718,907</u>
<i>Reported in other comprehensive income</i>		
Deferred tax expense arising from –		
Origination and reversal of temporary difference	<u><b>P 616,357</b></u>	<u>P -</u>

A reconciliation of the tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

	<u>2022</u>	<u>2021</u>
Tax on pretax profit at 25%	<b>P 6,689,344</b>	P 1,861,771
Tax effect of non-deductible expenses	<b>131,199</b>	227,284
Adjustment for income subjected to lower tax rate	<b>( 23,254 )</b>	( 8,729 )
Effect of change in tax rate in 2020	<u>-</u>	<u>( 361,419 )</u>
<b>Tax expense</b>	<b><u>P 6,797,289</u></b>	<b><u>P 1,718,907</u></b>

The deferred tax assets relate to the following as of December 31:

	<u>Statements of</u> <u>Financial Position</u>		<u>Profit or Loss</u>		<u>Other</u> <u>Comprehensive Income</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Post-employment defined benefit obligation	<b>P 2,839,448</b>	P 3,260,456	<b>P 195,349</b>	P 3,260,456	<b>( P 616,357 )</b>	P -
Leases – net	<b>206,778</b>	156,303	<b>50,475</b>	45,347	-	-
Unrealized foreign currency exchange gain	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 18,874 )</u>	<u>-</u>	<u>-</u>
Deferred Tax Income (Expense)			<b><u>P 245,824</u></b>	<b><u>P 3,286,929</u></b>	<b><u>( P 616,357 )</u></b>	<b><u>P -</u></b>
Deferred Tax Assets	<b><u>P 3,046,226</u></b>	<b><u>P 3,416,759</u></b>				

The Company is subject to the minimum corporate income tax (MCIT), which is computed at 1% of gross income, as defined under the tax regulation or the RCIT, whichever is higher. No MCIT was reported in 2022 and 2021 as the RCIT was higher than MCIT in both years.

In 2022 and 2021, the Company claimed itemized deductions in computing for income tax due.

## 15. RELATED PARTY TRANSACTIONS

The Company's related parties include its stockholders and a related party under common ownership as described below.

The summary of the Company's transactions and outstanding balances with its related parties follows:

	<u>Note</u>	<u>Amount of Transactions</u>		<u>Outstanding Balances</u>	
		<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<b>Related Party under Common Ownership</b>					
Donations	15.1	<b>P 240,000</b>	P 375,000	<b>P -</b>	P -
<b>Stockholders</b>					
Dividends	15.2	-	7,000,000	-	-

### **15.1 Donations**

The Company has made donations amounting to P240,000 in both 2022 and 2021, to Udenna Foundation, Inc. (UFI), a non-stock, non-profit organization established by Udenna. In addition, in 2021, the Company also made donations amounting to P135,000 to Enderun Colleges, Inc. (ECI) (nil in 2022). These are presented as part of Donation and Contribution in the statements of comprehensive income (see Note 12). The Company has no outstanding payable to UFI and ECI related to these donations as of December 31, 2022 and 2021.

### **15.2 Dividends**

On December 7, 2020, the BOD approved the declaration of cash dividends amounting to P7,000,000 to stockholders of record as of December 31, 2020. Such dividends were paid on May 30, 2021. No dividends were declared and paid in 2022.

## **16. EQUITY**

### **16.1 Capital Management Objectives, Policies and Procedures**

The Company's capital management objectives are:

- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk;
- To meet the minimum capital requirements for insurance brokerage companies as set by the IC; and,
- To ensure the Company's ability to continue as a going concern entity.

The Company monitors capital on the basis of the carrying amount of its equity as presented on the face of the statements of financial position.

The IC, in its CL 2018-52, which supersedes Insurance Memorandum Circular No. 1-2006, stated that existing insurance broker or reinsurance broker must have a net worth of at least P10,000,000. The Company's equity as of December 31, 2022 and 2021 amounted to P63,341,426 and P41,532,265 respectively, which is in compliance with the minimum capital requirement.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and total liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, or sell assets to reduce debt.

### **16.2 Share Capital**

As of December 31, 2022 and 2021, the Company has one stockholder owning 100 or more shares of the Company's capital stock.

### 16.3 Retained Earnings

On December 17, 2021, the BOD approved the appropriation of retained earnings amounting to P12,000,000 as reserve fund for probable contingency of the Company. As of December 31, 2022, the balance of the Company's retained earnings exceeded the paid-in capital. The unappropriated retained earnings presented in the 2022 statement of financial position amounted to P29,492,356. BOD plans to declare dividends in the succeeding years.

## 17. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the financial statements as of December 31, 2022 and 2021. The management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the financial statements.

## 18. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

	<u>Notes Payable (Note 10)</u>	<u>Lease Liability (Note 8)</u>	<u>Dividends Payable (Note 15.2)</u>	<u>Total</u>
Balance at January 1, 2022	P 830,868	P 4,440,775	P -	P 5,271,643
Non-cash financing activities:				
Additional mortgage	2,482,849	-	-	2,482,849
Interest expense amortization on lease liability	-	364,606	-	364,606
Interest expense on notes payable	149,495			149,495
Cash flows from financing activities:				
Repayments of lease liability	-	( 674,286)	-	( 674,286)
Repayments of notes payable	( 635,656)	-	-	( 635,656)
Interest paid on notes payable	( 149,495)	-	-	( 149,495)
Balance at December 31, 2022	<u><b>P 2,678,061</b></u>	<u><b>P 4,131,095</b></u>	<u><b>P -</b></u>	<u><b>P 6,809,156</b></u>

	Notes Payable (Note 10)	Lease Liability (Note 8)	Dividends Payable (Note 15.2)	Total
Balance at January 1, 2021	P -	P 4,696,994	P 7,000,000	P 11,696,994
Non-cash financing activities:				
Additional mortgage	880,000	-	-	880,000
Interest expense amortization on lease liability	-	388,436	-	388,436
Interest expense on notes payable	6,041	-	-	6,041
Cash flows from financing activities:				
Dividends paid	-	-	( 7,000,000)	( 7,000,000)
Repayments of lease liability	-	( 644,655)	-	( 644,655)
Repayments of notes payable	( 49,132)	-	-	( 49,132)
Interest paid on notes payable	( 6,041)	-	-	( 6,041)
Balance at December 31, 2021	<u>P 830,868</u>	<u>P 4,440,775</u>	<u>P -</u>	<u>P 5,271,643</u>

## 19. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

Presented below and in the succeeding pages are the supplementary information, which is required by the BIR under Revenue Regulations (RR) No. 15-2010 and RR No. 34-2020 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

### 19.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

#### (a) Output VAT

In 2022, the Company declared output VAT amounting to P4,603,656 related to taxable revenues for rendering of services amounting to P38,363,798.

The tax base for rendering of services is based on the Company's gross receipts for the year, hence, may not be the same as the amount of revenues reported in the 2022 statement of comprehensive income. The Company has no outstanding output VAT in 2022.

#### (b) Input VAT

The movements in input VAT in 2022 are summarized as follows:

Balance at beginning of year	P -
Services lodged under other accounts	344,988
Capital goods exceeding 1,000,000	339,000
Goods other than for resale or manufacture	158,406
Capital goods not exceeding 1,000,000	17,315
Applied against output VAT	( 859,709)
Balance at end of year	<u>P -</u>

Input VAT applied against output VAT in 2022 is exclusive of VAT payments amounting to P816,794.

(c) *Taxes on Importation*

The Company does not have any landed cost, customs duties and tariff fees in 2022 since it does not have any importation during the year.

(d) *Excise Tax*

The Company did not have transactions in 2022, which are subject to excise tax.

(e) *Documentary Stamp Tax (DST)*

DST paid in 2022 amounted to P67,985 pertains to DST on insurance premiums and is included as part of taxes and licenses [see item (f)].

(f) *Taxes and Licenses*

The details of taxes and licenses account for the year ended December 31, 2022 are broken down as follows:

Deficiency taxes [see item (h)]	P 438,917
Permit and licenses	245,131
DST [see item (e)]	67,985
Annual registration fee	500
Miscellaneous	<u>17,985</u>
Balance at end of year	<b><u>P 770,518</u></b>

The amount of taxes and licenses is included as part of Administrative Expenses in the 2022 statement of comprehensive income.

(g) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2022, are as follows:

Compensation and employee benefits	P 1,757,907
Expanded	<u>198,005</u>
	<b><u>P 1,955,912</u></b>

(h) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2022, the Company has settled final deficiency tax assessments with the BIR covering the taxable period 2020 amounting to P438,917 [see item (f)]. Breakdown of paid deficiency taxes is presented below.

Surcharge	P 395,778
Compromise	36,000
Interest	<u>7,139</u>
	<b><u>P 438,917</u></b>

As of December 31, 2022, the Company does not have any tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open years.

### **19.2 Requirements Under RR No. 34-2020**

RR No. 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Company is not covered by these requirements as the Company did not fall in any of the categories identified under Section 2 of RR No. 34-2020.

## **20. SUPPLEMENTARY INFORMATION REQUIRED BY THE IC**

Presented below and in the succeeding page are the supplementary information on minimum disclosure requirements of the IC under CL No. 2021-65 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

### *(a) Segregation of Client's Money Account*

As of December 31, 2022 and 2021, the Company's client's money amounted to P141,815 and P36,432, respectively, and are presented as part of Cash and cash equivalents in the statements of financial position. The Company's client's money is properly segregated from the Company's general fund.

### *(b) Net Worth Compliance*

The Company is required to comply with the minimum net worth requirement for an insurance broker amounting to P10,000,000 per IC CL No. 2018-52.

The Company's net worth as of December 31, 2022 and 2021 amounts to P63,341,426 and P41,532,265, respectively, with total capital stock of P20,000,000, issued and outstanding in both years; hence, the Company is in compliance with the minimum net worth requirement set forth by the IC.

### *(c) Fiduciary Ratio Requirement*

The Company is required to comply with the fiduciary ratio requirement per IC CL No. 2021-65, *Revised On-site Examination/Off-site Verification Rules and Procedures*. The fiduciary ratio is a measure to assess the Company's conduct of handling premiums from the policyholder or ceding company, given that a broker is expected to be acting on a fiduciary capacity.

The fiduciary ratio is computed by dividing the total fiduciary assets (either cash or receivables being held by an insurance and/or reinsurance broker, over the total fiduciary liabilities). The fiduciary ratio to be maintained shall be 1:1. Amounts used are gross of the commissions, allowances for impairment, taxes, fees, and other charges. The fiduciary assets and liabilities used are in accordance with IC CL No. 2021-69, *Revised Standard Chart of Accounts for Insurance and/or Reinsurance Brokers*.



*Fiduciary Transaction Model*

The Company uses a credit agreement. This is a type of transaction wherein an insurance and/or reinsurance broker (1) collects premiums receivable from clients/insurers and remits to insurance/reinsurance companies, (2) remits claim payments to claimants/cedants on behalf of the insurance/reinsurance company or (3) other credit agreement.

*Fiduciary Ratio Computation*

As of December 31, 2022, the Company's fiduciary ratio is computed as follows:

	<u>2022</u>	<u>2021</u>
Fiduciary Assets:		
Client's money	<b>P 141,815</b>	P 36,432
Receivable from insurance companies' clients	<u>-</u>	<u>68,373,578</u>
	<u><b>141,815</b></u>	<u>68,410,010</u>
 Fiduciary Liability –		
Payable to insurance companies	<u>141,815</u>	<u>68,410,278</u>
 Ratio	<u><b>1.00 : 1.00</b></u>	<u>1.00 : 1.00</u>

Based on the computation, the Company is compliant with the requirement per IC CL No. 2021-65.

*(d) Offsetting Arrangements*

The Company's offsetting arrangements are disclosed in Note 2.4(c).