Manulife Investment Management and Trust Corporation

(formerly known as Manulife Asset Management and Trust Corporation)
[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

Financial Statements
December 31, 2021 and 2020

and

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Manulife Investment Management and Trust Corporation
(formerly known as Manulife Asset Management and Trust Corporation)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Manulife Investment Management and Trust Corporation (formerly known as Manulife Asset Management and Trust Corporation) (the Company), which comprise the statements of financial position as at December 31, 2021 and 2020, 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, 2021 and 2020, 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 (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 and Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1075 in Note 21 and Revenue Regulations 15-2010 in Note 22 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manulife Investment Management and Trust Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Bernalette L. Ramos

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Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
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April 12, 2022

MANULIFE INVESTMENT MANAGEMENT AND TRUST CORPORATION
(FORMERLY KNOWN AS MANULIFE ASSET MANAGEMENT AND TRUST CORPORATION)
[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱219,463,654**	₱211,016,687
Due from related parties (Notes 19 and 20)	**63,927,009**	31,203,008
Receivables (Note 6)	**8,398,391**	7,920,811
Financial assets at fair value through other comprehensive income (Note 8)	**50,593,600**	51,856,500
Other current assets (Note 7)	**88,802,975**	54,097,952
Total Current Assets	**431,185,629**	356,094,958
Noncurrent Assets		
Financial assets at fair value through other comprehensive income (Note 8)	**353,176,000**	300,959,300
Property and equipment (Note 9)	**11,695,501**	12,984,737
Software costs (Note 10)	**9,198,232**	12,403,694
Deferred tax assets (Note 18)	**101,825**	5,430,124
Total Noncurrent Assets	**374,171,558**	331,777,855
TOTAL ASSETS	**₱805,357,187**	₱687,872,813
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 11)	**₱46,051,757**	₱31,405,087
Due to related parties (Note 19)	**79,187,641**	49,152,412
Lease liability (Note 16)	**3,277,580**	2,932,877
Other liabilities (Note 12)	**55,523,515**	53,398,486
Total Current Liabilities	**184,040,493**	136,888,862
Noncurrent Liabilities		
Lease liability (Note 16)	**3,498,799**	6,248,850
Pension liability (Note 17)	**11,531,710**	18,117,542
Total Noncurrent Liabilities	**15,030,509**	24,366,392
Total Liabilities	**199,071,002**	161,255,254
Equity		
Capital stock (Note 13)	**300,000,000**	300,000,000
Retained earnings	**303,740,500**	219,462,188
Remeasurement losses on pension plan (Note 17)	**(1,105,773)**	(10,856,928)
Unrealized gains on financial assets at fair value through other comprehensive income (Note 8)	**3,651,458**	18,012,299
Total Equity	**606,286,185**	526,617,559
TOTAL LIABILITIES AND EQUITY	**₱805,357,187**	₱687,872,813

See accompanying Notes to Financial Statements.

MANULIFE INVESTMENT MANAGEMENT AND TRUST CORPORATION

(FORMERLY KNOWN AS MANULIFE ASSET MANAGEMENT AND TRUST CORPORATION)

[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2021	2020
REVENUE		
Trust fees (Note 14)	**₱431,861,504**	₱347,587,883
EXPENSES		
Compensation and employee benefits (Note 15)	**116,330,151**	98,906,486
Commission	**32,451,782**	18,467,787
Taxes and licenses	**31,929,374**	25,137,267
License fees	**28,001,275**	13,499,666
Information technology	**25,673,568**	26,062,190
Advisory fees	**26,533,395**	14,821,444
Service fees (Note 19)	**24,327,481**	21,146,848
Advertising and promotion	**21,725,184**	10,497,139
Depreciation and amortization (Notes 9 and 10)	**11,386,735**	12,475,540
Professional fees	**2,074,754**	3,473,450
Utilities	**530,170**	805,444
Provision for (gain on reversal of provision for) credit losses (Note 8)	**(405,257)**	762,424
Finance charges	**322,794**	237,919
Entertainment, amusement and recreation	**273,109**	460,751
Others	**7,107,633**	1,005,768
	328,262,148	247,760,123
INCOME FROM OPERATIONS	**103,599,356**	99,827,760
OTHER INCOME (EXPENSE)		
Interest income (Notes 5 and 8)	**13,237,027**	13,295,366
Interest expense on lease liability (Note 16)	**(867,593)**	(675,304)
Foreign currency exchange gains (losses) - net	**(2,797)**	900,471
Other income	**245,875**	530,759
INCOME BEFORE INCOME TAX	**116,211,868**	113,879,052
PROVISION FOR INCOME TAX (Note 18)	**31,933,556**	35,965,958
NET INCOME	**84,278,312**	77,913,094
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that may be reclassified to the statement of income in subsequent periods:		
Net changes in fair value of financial assets at fair value through other comprehensive income (Note 8)	**(14,152,839)**	12,744,844
Income tax effect on net changes in fair value of financial assets at fair value through other comprehensive income (Note 18)	**(208,002)**	(265,870)
Items that may not be reclassified to the statement of income in subsequent periods:		
Remeasurement losses on pension plan (Note 17)	**9,751,155**	(6,020,418)
	(4,609,686)	6,458,556
TOTAL COMPREHENSIVE INCOME	**₱79,668,626**	**₱84,371,650**

See accompanying Notes to Financial Statements.

MANULIFE INVESTMENT MANAGEMENT AND TRUST CORPORATION
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STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 13)	Retained Earnings (Note 13)	Remeasurement Losses on Pension Plan (Note 17)	Unrealized Gains (Losses) on Financial Assets at FVOCI (Note 8)	Total
As at January 1, 2021	**₱300,000,000**	**₱219,462,188**	**(₱10,856,928)**	**₱18,012,299**	**₱526,617,559**
Net income	**–**	**84,278,312**	**–**	**–**	**84,278,312**
Other comprehensive income (loss)	**–**	**–**	**9,751,155**	**(14,360,841)**	**(4,609,686)**
Total comprehensive income (loss) for the year	**–**	**84,278,312**	**9,751,155**	**(14,360,841)**	**79,668,626**
As at December 31, 2021	**₱300,000,000**	**₱303,740,500**	**(₱1,105,773)**	**₱3,651,458**	**₱606,286,185**
As at January 1, 2020	₱300,000,000	₱141,549,094	(₱4,836,510)	₱5,533,325	₱442,245,909
Net income	–	77,913,094	–	–	77,913,094
Other comprehensive income (loss)	–	–	(6,020,418)	12,478,974	6,458,556
Total comprehensive income (loss) for the year	–	77,913,094	(6,020,418)	12,478,974	84,371,650
As at December 31, 2020	₱300,000,000	₱219,462,188	(₱10,856,928)	₱18,012,299	₱526,617,559

See accompanying Notes to Financial Statements.

MANULIFE INVESTMENT MANAGEMENT AND TRUST CORPORATION
(FORMERLY KNOWN AS MANULIFE ASSET MANAGEMENT AND TRUST CORPORATION)
[A Wholly-Owned Subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc.]

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱116,211,868**	₱113,879,052
Adjustments for:		
Interest income (Notes 5 and 8)	**(13,237,027)**	(13,295,366)
Interest expense on lease liability (Note 16)	**867,593**	675,304
Provision for (gain on reversal of provision for) credit losses (Note 8)	**(405,257)**	762,424
Unrealized foreign exchange loss (gain) - net	**(1,936,225)**	1,842,593
Depreciation and amortization (Notes 9 and 10)	**11,386,735**	12,475,540
Operating income before changes in working capital	**112,887,687**	116,339,547
Changes in operating assets and liabilities:		
Increase in:		
Due from related parties	**(32,724,001)**	(4,085,668)
Receivables	**(131,960)**	(242,349)
Other assets	**(34,705,023)**	(1,006,748)
Increase (decrease) in:		
Accounts payable and accrued expenses	**14,646,670**	3,619,541
Due to related parties	**30,035,229**	(4,470,649)
Pension liability	**2,796,734**	4,259,965
Other liabilities	**2,125,029**	10,611,143
Net cash from operations	**94,930,365**	125,024,782
Interest received	**16,136,581**	14,428,314
Interest paid	**(867,593)**	(675,304)
Income tax paid (including creditable withholding taxes)	**(26,444,670)**	(46,651,668)
Net cash generated from operating activities	**83,754,683**	92,126,124
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at fair value through other comprehensive income (Note 8)	**(117,946,556)**	(87,781,762)
Property and equipment (Note 9)	**(1,696,227)**	(1,329,388)
Software costs (Note 10)	**(5,195,810)**	(113,820)
Proceeds from maturities of financial assets at fair value through other comprehensive income (Note 8)	**50,000,000**	15,000,000
Net cash used in investing activities	**(74,838,593)**	(74,224,970)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of principal portion of lease liability (Note 16)	**(2,405,348)**	(2,593,778)
Net cash provided by (used in) financing activities	**(2,405,348)**	(2,593,778)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**1,936,225**	(1,842,593)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,446,967**	13,464,783
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**211,016,687**	197,551,904
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱219,463,654**	₱211,016,687

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Manulife Investment Management and Trust Corporation (formerly known as Manulife Asset Management and Trust Corporation) (the Company or MIMTC) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 1, 2017 to engage in the business of trust, other fiduciary business and investment management activities. The Bangko Sentral ng Pilipinas (BSP) granted the Certificate of Authority on June 5, 2017 and the Company received the official notification to operate and perform trust and other fiduciary business services on June 13, 2017. On April 28, 2021, the Securities and Exchange Commission approved the amendment of the Trust Corporation's legal name from Manulife Asset Management and Trust Corporation to Manulife Investment Management and Trust Corporation. The amendment was approved by majority vote of the Board of Directors (BOD) and by the stockholders on February 13, 2020.

MIMTC is a wholly-owned subsidiary of The Manufacturers Life Insurance Co. (Phils.), Inc. (the Parent Company or Manulife Philippines), a life insurance company incorporated and with principal place of business in the Philippines. The ultimate parent company is Manulife Financial Corporation (MFC), a publicly traded company incorporated in Canada and is listed in Toronto Stock Exchange, Hong Kong Exchange, New York Stock Exchange and the Philippine Stock Exchange.

On September 12, 2017, MIMTC entered into the following agreements:
- Investment Advisory Agreements (IAA) with the Parent Company and Manulife China Bank Life Assurance Corporation (MCBL), a subsidiary of the Parent Company (collectively, the Clients), whereby these affiliates availed of advisory services relative to the management and investment of the investible funds of the Clients' variable unit linked insurance products.
- Investment Management Agreements (IMA) with the Parent Company, MCBL and Manulife Financial Plans, Inc. (MFP), a subsidiary of the Parent Company (collectively, the Clients), whereby these affiliates availed of the services for the management and investment of the Clients' investable funds.

On September 14, 2017, MIMTC entered into an Administrative Service Agreement with the Parent Company, whereby the latter will provide certain administrative and other services which the former requires for its operations.

MIMTC officially commenced its operations on September 14, 2017.

On December 15, 2017, MIMTC (the Trustee) entered into a Trust Agreement with MFP (the Trustor) for the administration and management of the latter's pension and education block of business. The Trustor will establish 5 Trust Fund accounts for the benefit of the Trustor's planholders and or/designated beneficiary/ies. Five Trust Fund accounts were subsequently created on January 15, 2018.

As of December 31, 2021 and 2020, MIMTC manages the following Unit Investment Trust Funds (UITFs):

Fund	Launch Date
Manulife Equity Wealth Fund	September 18, 2017
Manulife Income Builder Fund.	September 18, 2017
Manulife Stable Income Fund.	September 18, 2017
Manulife Asia Best Select Equity Fund	June 19, 2018
Manulife Asia Pacific REIT Fund of Funds	July 11, 2018
Manulife Asia Dynamic Bond Feeder Fund	October 18, 2018
Manulife Dragon Growth Equity Feeder Fund	December 10, 2018
Manulife Global Preferred Income Feeder Fund	March 25, 2019
Manulife American Growth Equity Feeder Fund	May 15, 2019
Manulife Global Healthcare Equity Feeder Fund	January 18, 2021
Manulife Global Multi-Asset Diversified Income Feeder Fund	February 8, 2021
Manulife Global REIT Feeder Fund	July 21, 2021
Manulife India Equity Feeder Fund	August 17, 2021
Manulife Money Market Fund	October 5, 2021

The registered office of the Company, which is also its principal place of business, is located at the 10th Floor, NEX Tower, 6786 Ayala Avenue, Makati City.

The accompanying financial statements have been authorized for issue by the Company's Board of Directors on April 12, 2022.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Company have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI). The financial statements are presented in Philippine peso (₱), which is the Company's functional and presentation currency. All values are rounded to the nearest peso unless otherwise stated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Change in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2021. The adoption of these pronouncements did not have any significant impact on the Company's financial position or performance.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*
- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Significant Accounting Policies

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

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

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

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

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

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

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

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

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

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

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

Cash and Cash Equivalents
Short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value are classified as cash equivalents.

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

Initial measurement of financial instruments
Financial assets are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVTPL), the initial measurement of financial instruments includes transaction costs.

Classification and measurement of financial assets
For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative instrument and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are 'debt instruments'.

a. Financial Assets at Amortized Cost
   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 the 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 outstanding principal amount outstanding.

   Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of comprehensive income. Gains and losses are recognized in statement of comprehensive income when these investments are derecognized or impaired, as well as through the amortization process. The expected credit losses (ECL) are recognized in the statement of comprehensive income under 'Provision for credit losses'. The effects of revaluation on foreign currency-denominated assets are recognized in the statement of comprehensive income.

   The Company classified 'Cash and cash equivalents', 'Due from related parties', and 'Receivables' as financial assets at amortized cost.

   The Company may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As of December 31, 2021 and 2020, the Company has not made such designation.

b. Financial assets at FVOCI
   Financial assets at FVOCI consists of investments in debt securities. Debt securities are measured at FVOCI if both of the following conditions are met:

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

   Debt securities meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'Net change in fair value of financial assets at fair value through other comprehensive income'. The effective yield component of debt securities at FVOCI, as well as the impact of translation of foreign currency-denominated debt securities at FVOCI to Philippine peso, is reported in the statement of comprehensive income. Interest earned are reported as 'Interest income' using the effective interest (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain (loss) - net'. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit losses' in the statement of comprehensive income.

Reclassification of financial assets
The Company can reclassify financial assets if the objective of its business model for managing those financial assets changes. Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted. A change in the objective of the Company's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Impairment of financial assets
The Company recognizes an ECL for all debt instruments not held at FVTPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Company assesses on a forward-looking basis the ECL associated with its debt financial assets not measured at FVTPL. For cash in bank, debt financial assets at FVOCI, receivables from employees and accrued interest receivables, the Company applies the general approach in calculating

ECL. The loss allowance is based on the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

For cash and cash equivalents and investment in debt securities, the Company applies the low credit risk simplification. The Company considers a debt financial asset to have low credit risk when its credit risk rating is equivalent to the definition of investment grade. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

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

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not classified as at FVTPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder or lender, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of EIR. The amortization is included as part of interest expense in statement of comprehensive income.

This category includes the Company's 'Due to related parties'. It also applies to 'Accrued expenses' and 'Others' shown under 'Accounts payable and accrued expenses'.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of comprehensive income in 'Other income', unless it qualifies for recognition as some other type of asset. In cases where transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Offsetting Financial Instruments
Financial instruments are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a

future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Derecognition of Financial Instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the Company:

  a. Has transferred substantially all the risks and rewards of the asset, or
  b. Has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

The Company derecognizes a financial asset, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financial asset, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Company considers a modification substantial based on qualitative factors.

Financial liability

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

The Company considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of or greater than ten percent.

Similar with financial assets, when the modification of a financial liability is not considered substantial, the Company records a modification gain or loss based on the change in cash flows discounted at the original EIR.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the equipment of the recognition criteria are met, but excludes repairs and maintenance cost. The initial cost of property and equipment comprises of its purchase price and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of furniture and fixtures.

Depreciation is calculated on a straight-line basis over the estimated useful life (EUL) of the assets as follows:

	Number of Years
Furniture and fixtures	5
Transportation equipment	5

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected 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 statement of comprehensive income in the year when the asset is derecognized.

Software Costs
Software costs include computer software licenses to be used in operations which are accounted for under the cost model.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred. Subsequently, software is measured at cost less accumulated amortization and any accumulated impairment losses.

Costs are amortized on a straight-line basis over the EUL of three years as these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing.

Impairment of Non-Financial Assets
At each reporting date, the Company assesses whether there is any indication that its non-financial assets such as property and equipment and software may be impaired. When an indicator of impairment exists, the Company estimates the recoverable amount of the impaired asset. The recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the impaired asset is written down to its

recoverable amount. The impairment loss is charged to statement of comprehensive income in the year in which it arises. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

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

<u>Equity</u>
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs, net of related tax benefit, incurred related to equity issuance are chargeable to 'Additional paid-in capital'. If the 'Additional paid-in capital' is not sufficient, the excess is charged against 'Retained earnings'.

<u>Revenue Recognition</u>
Revenue from contracts with customers is recognized when control of services is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company assessed that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Trust fees
Trust fees related to trust accounts are recognized ratably over the period as the service is provided.

<u>Revenue outside the scope of PFRS 15</u>

Interest income
Interest income is accrued on a time proportion basis at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

<u>Expense Recognition</u>
Expenses are recognized in the statement of comprehensive income when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;

- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or
- Immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial condition as an asset.

Expenses in the statement of comprehensive income are presented using the nature of expense method.

Pension Benefits
The Company maintains a defined contribution (DC) plan that covers all regular full-time employees. Under its DC plan, the Company pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered by Republic Act (RA) No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

Accordingly, the Company accounts for its retirement obligation under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the DC plan.

For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

The DC liability, on the other hand, is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the DC benefits.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

Share-based Payments
The Company provides share-based compensation to certain officers and employees as part of MFC's Restricted Share Unit (RSU) Plan and Global Share Ownership Plan (GSOP).

RSU Plan
RSUs are granted to certain eligible employees of the Company under MFC's RSU Plan. Each RSU entitles the holder to receive payment equal to the market value of one MFC common share, plus credited dividends, at the time of vesting. RSUs are expensed with a corresponding liability accrued

based on the market value of MFC's common shares at the end of each reporting period. The change in the value of the RSUs resulting from changes in the market value of MFC common shares and credited dividends is recognized under 'Compensation and employee benefits' in the statement of comprehensive income.

GSOP
GSOP allows qualifying employees of the Company to apply up to five percent of their annual base earnings toward the purchase of MFC common shares . The Company matches a percentage of the employee's eligible contributions up to a maximum amount. The Company's contributions vest immediately. All contributions are used by the plan's trustee to purchase MFC common shares in the open market. The Company's contributions to the GSOP are expensed as incurred and recognized under 'Compensation and employee benefits' in the statement of comprehensive income.

<u>Leases</u>
Company as lessee
The Company assesses at contract inception whether a contract is, or contains a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liability to make lease payments and right-of-use (ROU) assets representing the right-of-use the underlying assets.

ROU assets
The Company recognizes ROU assets (included in 'Property and Equipment') at the commencement date of the lease (i.e. the date the underlying asset is available for use). ROU assets are measured at costs, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability. The cost of ROU assets includes the amount of lease liability recognized and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets of five years.

Lease liability
At the commencement date of the lease, the Company recognizes lease liability measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liability is increased to reflect the accretion of interest (included in 'Interest expense on lease liability') and reduced for the lease payments made. In addition, the carrying amount of lease liability is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of office spaces (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be of low value (i.e., those with value of less than ₱250,000). Lease payments on short-term leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Income Tax

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine Tax Law. Income tax is recognized in profit or loss, except to the extent that it relates to items directly recognized in OCI.

Current tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and unused NOLCO can be utilized.

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

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

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

Foreign Currency-Denominated Transactions and Balances

Transactions in foreign currencies are initially recorded in the functional currency at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the closing rate prevailing at reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the closing rate prevailing at the end of the reporting period. Foreign currency differences arising from translation are recognized in the statement of comprehensive income.

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

Contingencies
Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

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

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

Effective beginning on or after January 1, 2022
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

Effective beginning on or after January 1, 2024
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

Effective beginning on or after January 1, 2025
- PFRS 17, *Insurance Contracts*

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

3. **Significant Accounting Judgment and Estimates**

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

Judgment 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.

Judgment
In the process of applying the Company's accounting policies, management has made the judgment below which have the most significant effect on the amounts recognized in the financial statements.

Determining the lease term of contract with renewal and termination options – Company as lessee
The Company has a lease contract that includes renewal and termination options. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as location and importance of the office and parking spaces to its operations that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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

a) *Impairment of financial assets*

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

For Cash in bank, Financial assets at FVOCI, Receivables from employees and Accrued interest receivables, the allowance estimate is determined by obtaining the point-in-time probability of default (PD) and loss given default (LGD) of the counterparties from market sources (e.g. Bloomberg), adjusted for forward-looking factors specific to the counterparties and the economic environment, and days to maturities of the financial assets, and multiplying these inputs with the exposure at default (EAD). The PD is an estimate of the likelihood of default over a given time horizon. The LGD is an estimate of loss arising in the case where a default occurs at a given time. The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principals and interest, whether scheduled by contract or otherwise (see Notes 5, 6 and 8).

For trade receivables recorded under 'Due from related parties' and 'Management fee receivables', the Company estimates ECL based on days past due for groupings of credit accounts with similar loss patterns. Credit accounts are grouped based on their nature. The provision matrix is based on historical loss experience adjusted for current and forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future (see Notes 6 and 19).

As at December 31, 2021 and 2020, the Company has recognized provision for (gain on reversal of provision for) credit losses on financial assets at FVOCI amounting to (₱0.41 million) and ₱0.76 million, respectively (Note 8).

b) *Realizability of deferred tax assets*
Management reviews at each reporting date the carrying amount of the Company's deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. Management believes that sufficient taxable profit will be generated in the foreseeable future to allow the recognized deferred tax assets to be utilized.

As at December 31, 2021 and 2020, the Company has recognized deferred tax assets amounting to ₱2.40 million and ₱5.43 million, respectively (see Note 18). There are no unrecognized deferred tax assets.

c) *Estimating pension obligation*
The determination of pension obligation is dependent on the selection of certain assumptions used in calculating such amount. Those assumptions are described in Note 17 to the financial statements and include discount rates and future salary increases. Due to the long-term nature of the obligation, such estimates are subject to significant uncertainty. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension obligation.

The present value of the defined benefit obligation is determined by discounting the estimated future cash out flows using the interest rates of Philippine government bonds with terms consistent with the expected employee benefit payouts as at reporting date.

Salary increase rates are based on historical annual merit, market and promotional increase and future inflation rates.

Other assumptions, such as mortality rates and employee turnover rates, are based on publicly available mortality tables and the Company's historical experience.

Further details about the assumptions used and the carrying value of pension liability as at December 31, 2021 and 2020 are disclosed in Note 17.

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

4. Financial Risk Management Objectives and Policies

General Risk Management Structure
The Company's risk management program is a continuing, proactive and systematic process that focuses on the identification and assessment of financial risks guided by the principles set out in its risk management framework and seeks to implement the policies, procedures and guidelines established by the Company's Risk Oversight Committee.

The policies, procedures and guidelines are meant to manage financial risks to which the Company is exposed to. Discussed below are the risk management policies and measurement tools used by the Company in monitoring and managing its significant financial risks:

Liquidity Risk
Liquidity risk is the risk of not being able to meet funding obligations on due dates without incurring unacceptable losses due to disruption in funding sources, and/or inability to liquidate assets quickly due to changes in market conditions, and/or unplanned utilization of cash resources.

Liquidity risk is closely related to market risk as any adverse developments on foreign exchange rates, interest rates and market prices of securities could have an impact on liquidity.

Management of liquidity is the responsibility of the Operations Department. Given the nature of the Company's business, mitigation of liquidity risk involves in the first instance forecasting liquidity requirements and ensuring that sufficient balances of cash and cash equivalents to meet immediate needs are maintained.

All of the Company's financial assets and financial liabilities are current and will mature within one year after reporting date except for the financial assets at FVOCI. The table below analyzes the financial assets at FVOCI of the Company into their relevant maturity groups based on the remaining periods at the reporting date to their contractual maturities or expected repayment dates.

	2021				
	Up to a year	**1 to 5 years**	**Over 5 years**	**No term**	**Total**
Financial assets at FVOCI	**₱51,560,381**	**₱359,789,099**	**₱47,637,709**	**₱–**	**₱458,987,189**

	2020				
	Up to a year	1 to 5 years	Over 5 years	No term	Total
Financial assets at FVOCI	₱54,440,062	₱281,727,302	₱70,257,272	₱–	₱406,424,636

Credit Risk
Credit risk refers to the risk that the borrower, issuer or counterparty may fail to perform its obligation to pay on time or that its ability to perform such obligation may get impaired before settlement date. Credit risk is not limited to a company's lending activities but also arises whenever funds are extended, committed, invested, or otherwise exposed, through actual or implied contractual agreements, whether on or off the books.

The following table provides information regarding the maximum credit risk exposure of the Company as at December 31, 2021 and 2020:

	2021	2020
Financial assets at FVOCI	**₱403,769,600**	₱352,815,800
Cash and cash equivalents		
Cash in banks	**219,463,654**	141,016,687
Cash equivalents	**–**	70,000,000
Due from related parties	**63,927,009**	31,203,008
Receivables		
Management fees and other receivables	**4,859,088**	4,727,128
Accrued interest	**3,539,303**	3,193,683
	₱692,019,351	₱602,956,306

As at December 31, 2021 and 2020, all of the Company's financial assets are neither past due nor impaired.

The Company utilizes an internal credit rating system based on its assessment of the quality of its financial assets. The Company classifies its financial assets into the following credit grades:

- *High grade* - This pertains to accounts with a very low probability of default as demonstrated by the debtor's long history of stability, profitability and diversity. The debtor has the ability to raise substantial amounts of funds through the public markets or external financing. The debtor has a strong debt service record and a moderate use of leverage.

- *Medium grade* - The debtor has no history of default. The debtor has sufficient liquidity to fully service its debt over the medium term. The debtor has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies.

- *Low grade* - The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues. Operating performance could be marginal or on the decline. The borrower may have a history of default in interest but must have regularized its service record to date. The use of leverage is above industry standards but has contributed to shareholder value.

As at the end of each reporting period, the credit quality of the Company's financial assets that are neither past due nor impaired were determined to be high grade and are in stage 1 of the ECL model.

Market Risk

Market risk is the risk that movements of market prices will adversely affect the Company's financial condition. In managing its market risk exposure, the Company focuses on managing price risk which is the risk of loss arising from any change in the value of any asset or trading instrument.

- Foreign Currency Risk

  Foreign exchange risk arises when an investment's value varies due to changes in currency exchange rates. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company undertakes certain transactions denominated in US Dollars (US$), hence, exposures to exchange rate fluctuations arise with respect to such transactions. Significant fluctuation in the exchange rates could significantly affect the Company's financial condition. The Company has no established policy in managing foreign exchange rate risk. Any favorable or unfavorable movements of foreign currency exchange rates are absorbed by the Company.

  The Company's exposure to foreign currency exchange risk arises from its US$-denominated cash in banks amounting to US$1,482,961 (₱75,629,528) and US$614,064 (₱29,489,210) as of December 31, 2021 and 2020, respectively. In translating US$-denominated cash in banks into Philippine Peso amounts, the exchange rate used was ₱50.999 and ₱48.023 to US$1.00 as at December 31, 2021 and 2020, respectively. The profit/equity for the periods ended December 31, 2021 and 2020 will decrease/increase by ₱756,295 and ₱294,892, respectively, should the Philippine Peso appreciate/depreciate by 100 basis points against the US$.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The interest rate risk to which the Company is typically exposed to is fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Company's fair value interest rate risk relates to financial assets at FVOCI, cash in banks and short-term deposits that carry fixed interest rates. The range of interest rates on these assets are disclosed in Notes 5 and 8.

The following table shows information relating to the Company's exposure to interest rate risk as at December 31, 2021 and 2020:

	Interest Rates	**On demand**	**Up to a year**	**1 to <2 years**	**2 to <3 years**	**More than 3 years**	**Total**
Financial assets at FVOCI	**2.625% - 10.25%**	**₱–**	**₱50,592,200**	**₱34,406,020**	**₱101,417,380**	**₱217,354,000**	**₱403,769,600**
Cash in banks	**0.02% - 0.08%**	**219,463,654**	**–**	**–**	**–**	**–**	**219,463,654**
		₱219,463,654	**₱50,592,200**	**₱34,406,020**	**₱101,417,380**	**₱217,354,000**	**₱623,233,254**

	Interest Rates	On demand	Up to a year	1 to <2 years	2 to <3 years	More than 3 years	Total
Financial assets at FVOCI	2.625% - 10.25%	₱–	₱51,856,500	₱51,903,100	₱35,223,070	₱213,833,130	₱352,815,800
Cash in banks	0.02% - 0.08%	141,016,687	–	–	–	–	141,016,687
Short term deposits	0.65%	–	70,000,000	–	–	–	70,000,000
		₱141,016,687	₱121,856,500	₱51,903,100	₱35,223,070	₱213,833,130	₱563,832,487

Fair Value Measurement

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

Cash and cash equivalents - The carrying value approximates the fair value because these are subject to an insignificant risk of change in value considering their short-term nature or demand feature.

Receivables, due from related parties, accounts payable and accrued expenses (excluding taxes payable) and due to related parties - The fair values approximate their carrying amounts due to the short-term nature of these financial instruments.

Financial assets at FVOCI - The fair values are based on quoted prices published in markets. The table below presents the fair value level of financial assets at FVOCI as at December 31, 2021 and December 31, 2020:

	2021				
	Carrying	**Fair Value**			
	Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVOCI	**₱403,769,600**	**₱403,769,600**	**₱–**	**₱–**	**₱403,769,600**

	2020				
	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI	₱352,815,800	₱81,256,200	₱271,559,600	₱–	₱352,815,800

In 2021 and 2020, there were transfers between Level 1 and Level 2 and no transfers into and out of Level 3. Transfers in and out of fair value levels are recorded at the beginning of the year.

The table below shows the rollforward for financial assets at FVOCI in 2021 and 2020.

	2021	
	Level 1	**Level 2**
Opening balance	**₱81,256,200**	**₱271,559,600**
Additions	**117,946,556**	**–**
Maturities	**(50,000,000)**	**–**
Transfer out of Level 2 to Level 1	**271,559,600**	**(271,559,600)**
Amortization of net premium	**(3,245,174)**	**–**
Fair value movements	**(13,747,582)**	**–**
Closing balance	**₱403,769,600**	**₱–**

	2020	
	Level 1	Level 2
Opening balance	₱40,960,520	₱228,321,860
Additions	37,030,101	50,751,661
Maturities	(10,000,000)	(5,000,000)
Transfer out of Level 2 to Level 1	11,217,800	(11,217,800)
Amortization of net discount	(205,761)	(1,025,001)
Fair value movements	2,253,540	9,728,880
Closing balance	₱81,256,200	₱271,559,600

In 2021 and 2020, transfer from Level 2 to Level 1 is attributable to increase in trade activity. The Company has no Level 3 financial instruments as at December 31, 2021 and 2020.

5. Cash and Cash Equivalents

This account consists of:

	2021	2020
Cash in banks	**₱219,463,654**	₱141,016,687
Cash equivalents	**–**	70,000,000
	₱219,463,654	₱211,016,687

Cash in banks pertain to savings deposits while cash equivalents are time deposits which are due within three months from placement date. Cash in banks maintained with local banks earn annual interest rates of 0.02% to 0.08% in 2021 and 2020. Time deposits held by the Company earn annual interest rate of 0.65% in 2020.

Interest income from cash in banks and time deposits amounted to ₱0.25 million and ₱1.23 million in 2021 and 2020, respectively.

6. Receivables

This account consists of:

	2021	2020
Management fees and other receivables	**₱4,859,088**	₱4,727,128
Accrued interest receivable	**3,539,303**	3,193,683
	₱8,398,391	₱7,920,811

Management fees pertain to accrued management fees charged by the Company to its UITFs and other third-party institutional funds under management and are normally collected within 30 days.

Receivable from employees represent short-term, non-interest-bearing cash advances to employees.

7. Other Current Assets

This account consists of:

	2021	2020
Creditable withholding taxes	**₱62,921,448**	₱36,515,323
Prepaid expenses	**25,881,527**	17,582,629
	₱88,802,975	₱54,097,952

Prepaid expenses represent prepayments for commission, insurance, local business tax and salaries.

8. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of investments in government bonds amounting to ₱403.77 million and ₱352.82 million as of December 31, 2021 and 2020, respectively.

The movements in financial assets at FVOCI follow:

	2021	2020
Balance at January 1	**₱352,815,800**	₱269,282,380
Acquisitions during the year	**117,946,556**	87,781,762
Maturities during the year	**(50,000,000)**	(15,000,000)
Amortization of net discount (premium)	**(3,245,174)**	(1,230,762)
Changes in fair value recognized in equity	**(13,747,582)**	11,982,420
Balance at December 31	**₱403,769,600**	₱352,815,800

The amortization of premium and discount of financial assets at FVOCI is included under 'Interest income' in the statements of comprehensive income.

Interest income earned, net of amortization of premium and discount, on financial assets at FVOCI amounted to ₱12.99 million and ₱12.07 million in 2021 and 2020, respectively.

The movements in net unrealized gain (loss) on financial assets at FVOCI recognized in OCI follow:

	2021	2020
Balance at January 1	**₱18,012,299**	₱5,533,325
Fair value changes during the year	**(13,747,582)**	11,982,420
Provision for (gain on reversal of provision for) credit losses	**(405,257)**	762,424
Income tax effect on changes in fair value	**(208,002)**	(265,870)
Balance at December 31	**₱3,651,458**	₱18,012,299

In accordance with BSP Circular No. 884, otherwise known as the Guideline on the Establishment and Operation of Trust Corporations (TC), the Company is required to deposit with the BSP eligible government securities as security for the faithful performance of trust and other fiduciary duties and investment management activities equivalent to 0.05% of the total book value of the Assets Under Management (AUM). Provided, that at no time shall the basic security deposit (BSD) be less than ₱500,000. Further, after the first year of operation, the BSD shall be based on the trust rating of the most recent report of examination of the TC, as shown in the table below:

Trust Rating	**Required BSD**
4	₱500,000 or 0.03% of the total book value of the AUM, whichever is higher.
3	₱500,000 or 0.05% of the total book value of the AUM, whichever is higher.
2	₱500,000 or 0.10% of the total book value of the AUM, whichever is higher.
1	₱500,000 or 0.20% of the total book value of the AUM, whichever is higher.

The Company shall not withdraw, transfer or replace such securities without prior written approval of BSP.

As of December 31, 2021 and 2020, government bonds with market value amounting to ₱118.06 million and ₱93.24 million, respectively, are deposited with the BSP in compliance with BSP Circular No. 884.

9. Property and Equipment

The composition of and movements in this account follow:

	2021			
	Furniture and Fixtures	**Transportation Equipment**	**Right-of-use Asset - Office and Parking Space**	**Total**
Cost				
Balance at January 1, 2021	**₱587,739**	**₱4,592,751**	**₱14,987,322**	**₱20,167,812**
Additions	**15,002**	**2,501,955**	**–**	**2,516,957**
Other Adjustments	**–**	**–**	**(820,730)**	**(820,730)**
Balance at December 31, 2021	**602,741**	**7,094,706**	**14,166,592**	**21,864,039**
Accumulated Depreciation and Amortization				
Balance at January 1, 2021	**353,917**	**1,333,807**	**5,495,351**	**7,183,075**
Depreciation and amortization	**119,765**	**1,123,397**	**1,742,301**	**2,985,463**
Balance at December 31, 2021	**473,682**	**2,457,204**	**7,237,652**	**10,168,538**
Net Book Value, December 31, 2021	**₱129,059**	**₱4,637,502**	**₱6,928,940**	**₱11,695,501**

	2020			
	Furniture and Fixtures	Transportation Equipment	Right-of-use Asset - Office and Parking Space	Total
Cost				
Balance at January 1, 2020	₱587,739	₱3,263,363	₱14,987,322	₱18,838,424
Additions	–	1,329,388	–	1,329,388
Balance at December 31, 2020	587,739	4,592,751	14,987,322	20,167,812
Accumulated Depreciation and Amortization				
Balance at January 1, 2020	235,312	662,196	2,497,887	3,395,395
Depreciation and amortization	118,605	671,611	2,997,464	3,787,680
Balance at December 31, 2020	353,917	1,333,807	5,495,351	7,183,075
Net Book Value, December 31, 2020	₱233,822	₱3,258,944	₱9,491,971	₱12,984,737

As of December 31, 2021 and 2020, there were no fully depreciated property and equipment still in use.

10. Software Costs

The composition of and movements in this account follow:

	2021	2020
Cost		
At beginning of year	**₱29,298,830**	₱29,185,010
Additions	**5,195,810**	113,820
At end of year	**34,494,640**	29,298,830
Accumulated Amortization		
At beginning of year	**16,895,136**	8,207,276
Amortization	**8,401,272**	8,687,860
At end of year	**25,296,408**	16,895,136
Net Book Value	**₱9,198,232**	₱12,403,694

11. Accounts Payable and Accrued Expenses

This account consists of:

	2021	2020
Accrued expenses	**₱33,848,517**	₱25,691,658
Withholding taxes payable	**9,072,750**	2,162,231
Gross receipts tax (GRT) payable	**2,547,018**	2,587,731
Accounts payable	**583,472**	963,467
	₱46,051,757	₱31,405,087

Accrued expenses include accruals for agents' commissions and employee bonuses. These are normally settled within one year.

Accounts payable includes payable to suppliers arising from purchases of various office supplies, equipment and other capital expenditures.

12. Other Liabilities

This account consists of:

	2021	2020
Payable to managed funds	**₱41,758,971**	₱45,202,244
GSOP contributions	**10,646,584**	4,914,186
RSU liability	**2,940,510**	2,647,313
Others	**177,450**	634,743
	₱55,523,515	₱53,398,486

Payable to managed funds pertains to collections of subscriptions from clients which are due for transfer to chosen UITF.

RSU liability pertains to the fair value of the RSUs granted to officers of the Company under MFC's RSU Plan. In 2021 and 2020, the Company recognized compensation expense related to the RSUs amounting to ₱1.98 million and ₱2.62 million, respectively.

GSOP contributions pertains to contributions of qualifying employees to MFC's GSOP for purchase of MFC's common shares that are not yet remitted to the plan. This also include the share of the Company to the GSOP. In 2021 and 2020, the Company recognized compensation expense related to the GSOP amounting to ₱0.85 million and ₱0.82 million, respectively.

Others include statutory employee and employer contributions.

13. **Equity**

Capital Stock
The table below summarizes the capital stock of the Company as of December 31, 2021 and 2020:

	2021		2020	
	Number of Shares	**Amount**	Number of Shares	Amount
Authorized - ₱1,000 par value	**800,000**	**₱800,000,000**	800,000	₱800,000,000
Issued and outstanding				
Balance at beginning of year	**300,000**	**₱300,000,000**	300,000	₱300,000,000
Issuance of capital stock	–	–	–	–
Balance at end of year	**300,000**	**₱300,000,000**	300,000	₱300,000,000

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains a strong capital ratio in order to support its business, maximize shareholder value and meet regulatory capital requirements.

The Company monitors capital on the basis of debt-to-equity ratio. The ratio is calculated as total debt divided by equity.

	2021	2020
Total liabilities	**₱199,071,002**	₱161,255,254
Total equity	**606,286,185**	526,617,559
Debt-to-equity ratio	**0.33**	0.31

In accordance with BSP Circular No. 884, the Company is required to have a minimum unimpaired capital of ₱300 million or 0.10% of the total book value of its AUM, whichever is higher. Upon incorporation, the Company may have an initial minimum paid-in capital of ₱100 million and shall be allowed to build-up capital over a period of 5 years. The minimum paid-in capital after 5 years shall be at least ₱300 million. Further, the minimum capital during the capital build-up phase shall be determined as follows:

Calendar Year	**Capital Requirement**
Year 0 - Upon incorporation	₱100 million
End of Year 1	₱140 million or 0.10% of AUM whichever is higher
End of Year 2	₱180 million or 0.10% of AUM whichever is higher
End of Year 3	₱220 million or 0.10% of AUM whichever is higher
End of Year 4	₱260 million or 0.10% of AUM whichever is higher
End of Year 5 and onwards	₱300 million or 0.10% of AUM whichever is higher

The AUM, for this purpose, shall be computed based on the average of the quarter-end balance of AUM for the calendar year.

As at December 31, 2021 and 2020, the Company has complied with this requirement.

Cost of issuance of capital stock
In November 2019, the Company paid documentary stamp taxes amounting to ₱1.00 million on account of the issuance of 100,000 shares of stock to its Parent Company for its capital infusion. This was charged directly to equity.

14. Trust Fees

Set out below is the disaggregation of the Company's revenue arising from trust fees:

	2021	2020
Agency accounts	**₱312,362,824**	₱260,533,623
UITF and institutional trust accounts	**78,435,452**	52,146,565
Advisory/consultancy	**41,063,228**	34,907,695
Revenue from contracts with customers	**₱431,861,504**	₱347,587,883

15. Compensation and Employee Benefits

The account consists of:

	2021	2020
Employee salaries	**₱70,628,073**	₱63,099,486
Bonus	**30,248,972**	22,348,473
Pension benefits (Note 17)	**8,680,067**	5,767,901
RSU and GSOP benefits (Note 12)	**2,830,398**	3,440,308
Other benefits	**3,942,641**	4,250,318
	₱116,330,151	₱98,906,486

16. Leases

The Company is a lessee under a non-cancellable lease covering the Company's office and parking spaces. The lease contract is for a period of 5 years and is renewable at the Company's option under certain terms and conditions. The lease contract can be pre-terminated at the Company's option any time after the start of the fourth year of the lease term subject to a 12-month prior notice. The lease contract includes an escalation clause, which is an annual rent increase of 5.00%. As of December 31, 2021 and 2020, the Company has no contingent rent payable.

As of December 31, 2021 and 2020, the carrying amount of lease liability follows:

	2021	2020
Balance at beginning of year	**₱9,181,727**	₱11,775,505
Accretion of interest	**867,593**	675,304
Payments	**(3,272,941)**	(3,269,082)
	₱6,776,379	₱9,181,727

The following are the amounts recognized in the statements of comprehensive income:

	2021	2020
Amortization expense of right-of-use assets included under property and equipment (Note 9)	**₱1,742,301**	₱2,997,464
Interest expense on lease liability	**867,593**	675,304
	₱2,609,894	₱3,672,768

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2021 and 2020:

	2021	2020
Within 1 year	**₱3,604,164**	₱3,432,537
More than 1 year to 2 years	**2,838,279**	3,604,164
More than 2 years to 3 years	–	2,838,279
More than 3 years to 4 years	–	–

17. Pension Plan

As discussed in Note 2, the Company maintains a defined contribution (DC) plan which under Philippine Interpretations Committee (PIC) Q&A 2013-03, *PAS 19 – Accounting for Employee Benefits under a Defined Contribution Plan subject to Requirements of Republic Act (RA) 7641, The Philippine Retirement Law* should be accounted for as a defined benefit plan.

Republic Act (RA) No. 7641, the Retirement Pay Law, requires provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits in any collective bargaining and other agreements shall not be less than what is provided under the law. The law does not require minimum funding of the plan.

The Company established a formal defined contribution retirement plan for its regular employees. The retirement plan is non-contributory and of the defined contribution type. It provides a benefit at normal retirement equal to one hundred percent (100%) of the Member's Account Balance (Company contributions ranging from 5% to 10% of Plan Salary plus credited earnings depending on the tenure of eligible employees) or the benefit due under the Labor Code, whichever is greater. The benefit is paid in a lump sum upon retirement or separation in accordance with the terms of the retirement plan.

If the value of the Member's Company Account is less than the retirement benefits to which the Member is entitled under RA No. 7641, any forfeited Company contributions and earnings remaining in the retirement fund shall be used to satisfy the difference. Should such forfeited amounts be insufficient for the purpose, the Company shall pay the amount of any remaining shortfall directly to the Member.

The assets of the plan are held separately from those of the Company in a fund under the management of a trustee bank.

The latest actuarial valuation study of the Company's minimum retirement obligation under RA No. 7641 was made as at December 31, 2021.

The following table compares the present value of the Company's DB obligation and the projected DC obligation as of December 31, 2021 and 2020.

	2021	2020
DC obligation[1]	**₱29,799,193**	₱25,054,789
DB obligation[2]	**41,330,903**	43,172,331
Excess of DB over DC obligation	**₱11,531,710**	₱18,117,542

1. *Determined on an employee by employee basis as the present value of the projected benefits at retirement attributable to Company contributions to the DC plan, then prorated by accrued service over total service.*
2. *Determined on an employee by employee basis as the present value of the projected benefits based on the minimum guaranteed benefits under RA. 7641.*

The following table summarizes the components of the net benefit expense recognized in the statements of comprehensive income and amounts recognized in the statements of financial position for the plan.

Pension benefits recognized in profit or loss follow:

	2021	2020
Current service cost	**₱7,995,226**	₱5,455,708
Net interest on the net defined benefit obligation	**684,841**	312,193
	₱8,680,067	₱5,767,901

Remeasurement effects recognized in OCI follow:

	2021	2020
Actuarial losses	**₱11,529,260**	(₱7,514,514)
Return on plan assets (excluding interest income)	**(2,146,694)**	1,494,096
	₱9,382,566	(₱6,020,418)

The amounts recognized in the statements of financial position follow:

	2021	2020
Present value of benefit obligation	**₱41,330,903**	₱43,172,331
Fair value of plan assets	**(29,799,193)**	(25,054,789)
	₱11,531,710	₱18,117,542

Changes in the present value of the defined benefit obligation follow:

	2021	2020
At January 1	**₱43,172,331**	₱28,758,379
Current service cost	**7,995,226**	5,455,708
Interest cost	**1,692,606**	1,443,730
Actuarial losses arising from:		
Experience adjustments	**(1,882,155)**	2,202,847
Changes in financial assumptions	**(9,647,105)**	5,311,667
Benefits paid	**–**	–
Net acquired obligation due to employee transfers	**–**	–
At December 31	**₱41,330,903**	₱43,172,331

Changes in the fair value of the plan assets follow:

	2021	2020
At January 1	**₱25,054,789**	₱20,921,220
Interest income	**1,007,765**	1,131,537
Return on plan assets (excluding interest income)	**(2,146,694)**	1,494,096
Actual contributions	**5,883,333**	1,507,936
Benefits paid	**–**	–
Net acquired obligation due to employee transfers	**–**	–
At December 31	**₱29,799,193**	₱25,054,789

The retirement fund is co-owned by the Company, the Parent Company, and its affiliates, MCBL and Manulife IT Delivery Center Asia (MITDC), which is in the form of a trust administered by a trustee bank. The carrying values as at December 31, 2021 and 2020 of the fund, which approximate fair values, are as follows:

	2021	2020
Cash	**₱6,157**	₱734,647
Investments in government debt securities	**502,873,089**	447,643,177
Accrued income receivable	**8,116,513**	6,602,092
Other receivables	**(56,807)**	26,656
Total	**510,938,952**	455,006,572
Liabilities	**39,997,315**	35,942,854
	₱470,941,637	₱419,063,718

As at December 31, 2021 and 2020, the retirement fund pertaining to MIMTC amounted to ₱29.80 million and ₱25.05 million, respectively.

The average duration of the defined benefit obligation as at December 31, 2021 and 2020 is 15 years and 16 years, respectively.

The Company's expects to contribute ₱4.34 million to the retirement plan in 2022.

Shown below is the maturity profile of the undiscounted benefit payments:

	2021	2020
Less than one year	**₱1,423,500**	₱1,170,297
One to less than five years	**8,615,158**	7,098,958
Five to less than ten years	**45,603,286**	46,381,473
Ten to less than fifteen years	**55,770,585**	49,437,657
Fifteen to less than twenty years	**64,723,205**	84,546,465
Twenty years and above	**82,731,217**	82,646,610

The principal assumptions used in determining the defined benefit obligation of the Company follow:

	2021	2020
Discount rate		
At January 1	**3.80%**	5.09%
At December 31	**5.08%**	3.80%
Future salary increase rate	**7.00%**	7.00%

The sensitivity analysis below showing estimated increase (decrease) in the retirement benefit obligation has been determined based on reasonably possible changes of each relevant significant assumption as at December 31, 2021 and 2020, assuming all other assumptions were held constant.

		Increase (decrease)	
	Change in basis points	**2021**	2020
Discount rate	+100	**(₱3,074,786)**	(₱4,216,768)
	-100	**3,623,974**	5,249,634
Salary increase rate	+100	**3,743,729**	5,274,850
	-100	**(3,226,914)**	(4,322,100)

18. Income Tax

RA No. 9397, *An Act Amending the National Internal Revenue Code*, provides that the Regular Corporate Income Tax (RCIT) rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

Provision for (benefit from) income tax consists of:

	2021	2020
Current		
RCIT	**₱23,147,391**	₱35,581,561
Final withholding tax	**3,297,276**	2,916,279
	26,444,667	38,497,840
Deferred	**5,488,889**	(2,531,882)
	₱31,933,556	₱35,965,958

The components of the Company's deferred tax assets and liabilities follow:

	2021	2020
Deferred tax assets:		
Accrued expenses	**₱8,184,629**	₱7,437,497
Lease liability	**1,694,095**	2,754,518
Advance rent	**324,314**	389,177
Provision for credit losses	**–**	228,727
Unrealized foreign exchange loss	**699**	–
	10,203,737	10,809,919
Deferred tax liabilities:		
Pension Liability	**4,198,793**	–
Right-of-use-asset	**1,732,235**	2,847,591
Prepaid commission	**3,958,552**	1,943,041
Provision for credit losses	**101,314**	–
Unrealized gain from financial assets at FVOCI	**111,018**	319,020
Unrealized foreign exchange gain	**–**	270,143
	10,101,912	5,379,795
	₱101,825	₱5,430,124

Reconciliation between the statutory income tax and the effective income tax follows:

	2021	2020
Income tax computed at statutory rates	**₱29,052,967**	₱34,163,716
Tax effects of:		
Changes in deferred tax assets	**–**	–
Non-deductible expenses	**6,620,048**	3,243,725
Income subject to final tax	**(823,274)**	(1,441,483)
Non-taxable income	**–**	–
2020 CREATE impact booked in 2021	**(2,916,185)**	–
Income tax expense	**₱31,933,556**	₱35,965,958

Provision for income tax directly charged to OCI in 2021 and 2020 amounted to ₱0.58 million and ₱0.27 million, respectively.

19. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its stockholders.

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

Details on significant related party transactions of the Company follow:

					December 31, 2021	
Relationship	**Entities**	**Financial Statement Account**	**Nature**	**Terms and conditions**	**Transactions during the year**	**Outstanding Balance**
Parent Company		**Due from related parties**	**Trust fees**	**Based on Management Fee Agreement**	**₱203,745,886**	**₱45,415,796**
			Advances	**Non-interest bearing**	–	**1,918,496**
		Due to related parties	**Service fees**	**Non-interest bearing**	**24,327,481**	**–**
			Advances	**Non-interest bearing**	**5,265,085**	**16,358,004**
Under Common Control	**Manulife Financial Plans, Inc.**	**Due from related parties**	**Trust fees**	**Per investment Management Fee Agreement**	**18,802,000**	**1,413,800**
			Bank charges	**Non-interest bearing**	**–**	**32**
		Due to related parties	**Service fees**	**Non-interest bearing**		**5,858**

(Forward)

Relationship	Entities	Financial Statement Account	Nature	Terms and conditions	December 31, 2021 Transactions during the year	Outstanding Balance
	Manulife Chinabank Life Assurance Corp	**Due from related parties**	**Trust fees**	**Per investment Management Fee Agreement**	**₱78,095,214**	**₱6,074,910**
			Receivable pertaining to withholding tax	**Non-interest bearing**	**–**	**1,856,697**
	Manulife Asset Management - Hongkong	**Due to related parties**	**Allocated Cost for sub-advisory fee**	**Non-interest bearing**	**(638,706)**	**418,192**
	Manulife Asset Management - Singapore	**Due to related parties**	**Allocated Cost for sub-advisory fee**	**Non-interest bearing**	**(1,344,644)**	**2,442,852**
Ultimate Parent	**Manulife Life Insurance Company**	**Due from related parties**	**Allocated Cost for the data management provided by affiliate**	**Non-interest bearing**	**–**	**4,272,120**
		Due to related parties	**Allocated Cost for the data management provided by affiliate**	**Non-interest bearing**	**17,542,378**	**38,378,449**
	John Hancock Life Insurance Company (USA)	**Due from related parties**	**Allocated Cost for the data management provided by affiliate**	**Non-interest bearing**	**–**	**2,975,158**
		Due to related parties	**Allocated Cost for the data management provided by affiliate**	**Non-interest bearing**	**7,688,050**	**21,482,288**
	Manulife Financial Asia, Ltd.	**Due to related parties**	**Advances**	**Non-interest bearing**	**–**	**101,998**

Relationship	Entities	Financial Statement Account	Nature	Terms and conditions	December 31, 2020 Transactions during the year	Outstanding Balance
Parent Company		Due from related parties	Trust fees	Based on Management Fee Agreement	₱208,032,242	₱21,023,882
		Due to related parties	Service fees	Non-interest bearing	21,146,848	1,770,295
			Advances	Non-interest bearing	(20,569,408)	11,068,366
Under Common Control	Manulife Financial Plans, Inc.	Due from related parties	Trust fees	Per investment Management Fee Agreement	19,050,796	1,555,500
			Bank charges	Non-interest bearing	–	32
	Manulife Chinabank Life Assurance Corp	Due from related parties	Trust fees	Per investment Management Fee Agreement	81,959,493	8,297,867
			Receivable pertaining to withholding tax	Non-interest bearing	–	325,727

(Forward)

Relationship	Entities	Financial Statement Account	Nature	Terms and conditions	December 31, 2020 Transactions during the year	Outstanding Balance
	Manulife Asset Management - Hongkong	Due to related parties	Allocated Cost for sub-advisory fee	Non-interest bearing	₱398,591	₱638,706
	Manulife Asset Management - Singapore	Due to related parties	Allocated Cost for sub-advisory fee	Non-interest bearing	465,823	1,344,644
Ultimate Parent	Manulife Life Insurance Company	Due to related parties	Allocated Cost for the data management provided by affiliate	Non-interest bearing	11,663,340	20,634,091
	John Hancock Life Insurance Company (USA)	Due to related parties	Allocated Cost for the data management provided by affiliate	Non-interest bearing	5,599,191	13,794,238

The Company charged its related parties 0.05% of the net asset value of accounts under management accrued monthly and collected monthly in accordance with the IAA (see Note 1).

The Company charged its related parties fees ranging from 0.18% to 0.90% of the net asset value of accounts under management accrued monthly and collected monthly in accordance with the IMA (see Note 1).

In consideration for the performance of administrative services by the Parent Company in accordance with the Administrative Service Agreement (see Note 1), the Company pays service fees equivalent to the actual cost incurred by the Parent Company in rendering the service plus 5% mark-up plus VAT, accrued monthly and paid monthly.

All transactions with related parties are to be settled in cash.

20. Trust Operations

Securities and other investments held by the Company in fiduciary or agency capacity for clients and beneficiaries amounting to ₱162.61 billion and ₱149.47 billion as at December 31, 2021 and 2020, respectively, are not included in the accompanying statements of financial position, since these are not assets of the Company.

The Company deposited government bonds classified as financial assets at FVOCI with a total market value of ₱118.06 million and ₱93.24 million as at December 31, 2021 and 2020, respectively, in compliance with the requirements of the BSP relative to its operations (see Note 8).

In 2021 and 2020, trust fee income amounted to ₱431.86 million and ₱347.59 million, respectively. Trust fees are charged on a daily or monthly basis (and collected monthly) as a percentage of net asset value of accounts under management (see Notes 14 and 19).

21. **Supplementary Information Required Under BSP Circular No. 1075**

This information is presented for purposes of filing with the BSP and is not a required part of the basic financial statements prepared in accordance with PFRS.

BSP Circular No. 1075
The Monetary Board (MB), in its Resolution No. 48 dated January 8, 2020 approved the amendments to the relevant provisions of the manual of regulations for non-bank financial institutions prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements. Subsection 4190T.4 was further amended to require inclusion in the Notes to Financial Statements supplementary information as prescribed under Annex Q-33-c of Appendix Q-33.

Below are the additional information required by BSP Circular No. 1075:

a. Basic quantitative indicators of financial performance:

	2021	2020
Return on average equity (a/b)	**14.88%**	16.08%
a. Net income	**₱84,278,312**	₱77,913,094
b. Average total equity	**566,451,872**	484,431,734
Return on average assets (c/d)	**11.29%**	12.23%
c. Net income	**84,278,312**	77,913,094
d. Average total assets	**746,615,000**	636,963,668
Percentage of total trust fees to total assets under management (AUM) (e/f)	**0.27%**	0.23%
e. Trust fees	**431,861,504**	347,587,883
f. Assets under management	**162,614,709,210**	149,474,747,842

b. Total outstanding investment, loans and other credit accommodations to the Company's DOSRI and related parties with name of DOSRI/related parties, and breakdown, if applicable, as to (i) security (secured, including type of security; and unsecured) and (ii) status (performing and non-performing)

   None to report.

c. Large exposures as defined under Section 4303T

   None to report.

d. Nature and amount of contingencies and commitments arising from off-balance sheet items

   None to report.

e. Aggregate amount of secured liabilities and assets pledged as security

   None to report.

22. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

In compliance with the requirements set forth by RR 15-2010 hereunder is information on taxes and license fees paid or accrued in 2021.

A. Withholding Taxes

	Total Remittances	Balance
Creditable withholding taxes	₱26,000,620	₱3,858,284
Tax on compensation and benefits	25,800,624	5,214,466
	₱51,801,244	₱9,072,750

B. All Other Taxes (Local and National)

Other taxes paid during the year recognized under 'Taxes and licenses' account	
a. Local Taxes	
Mayor's permit	₱139,660
Barangay clearance	–
Community tax certificate	–
	₱139,660
b. National Taxes	₱20,033,466
Gross receipts	500
BIR annual registration	₱20,033,966
c. Other licenses and fees	₱11,513,935
	₱31,687,561

C. Deficiency Tax Assessments

As at December 31, 2021, the Company has no tax cases and assessments.

D. Tax Cases

As at December 31, 2021, the Company has no pending tax cases.