

COVER SHEET

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SEC Registration Number

C T S G L O B A L E Q U I T Y G R O U P , I N C .

(Company's Full Name)

2 7 / F E a s t T o w e r , T e k t i t e T o w e r s ,  
E x c h a n g e R o a d , O r t i g a s C e n t e r ,  
P a s i g C i t y

(Business Address: No. Street City/Town/Province)

Mr. Lawrence C. Lee  
(Contact Person)

(02) 8 635-5735  
(Company Telephone Number)

1 2 3 1  
Month Day  
(Calendar Year)

17-Q  
(Form Type)  
September 30,  
2022

Month Day  
(Annual Meeting)

Broker

(Secondary License Type, If Applicable)

CFD  
Dept. Requiring this Doc.

Not Applicable  
Amended Articles  
Number/section

17  
Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended: **September 30, 2022**
2. Commission identification number **63824**
3. BIR Tax Identification No. **000-322-268-000**
4. Exact name of issuer as specified in its charter: **CTS GLOBAL EQUITY GROUP, INC.**
5. Province, country or other jurisdiction of incorporation or organization: **Pasig City, Philippines**
6. Industry Classification Code:  Use Only)
7. Address of issuer's principal office: Postal Code: **1605**  
**2701-B East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City**
8. Issuer's telephone number, including area code: **(02) 8635-5735**
9. Former name, former address and former fiscal year, if changed since last report: **Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA:

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<b>Common</b>	<b>6,875,000,000 shares</b>

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes  No

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes  No

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes  No

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements.

The unaudited financial statements are filed as part of this Form 17-Q.

### Item 2. Management’s Discussion and Analysis (MD&A) of Financial Conditions and Results of Operations.

The following is a discussion and analysis of the financial performance of CTS Global Equity Group, Inc. The discussion aims to provide readers with an appreciation of its business model and the key factors underlying its financial results. The MD&A should be read in conjunction with the unaudited financial statements of the Company filed as part of this report.

#### **Company Overview**

CTS Global Equity Group, Inc. (“CTS”, “CTS Global”, or the “Company”) is a proprietary trading firm with more than thirty individual traders that actively trade the firm’s capital in the Philippine, Hong Kong, Japan, US, and in the future, other equity markets.

Established in 1986, the Company is one of the local pioneers in proprietary trading. Through the years, it has developed important intellectual property assets, specifically dealing with risk management, macroeconomics analysis, and fundamental, and technical analysis that allows it to capitalize on opportunities in the local and global stock markets.

Currently, the Company’s pool of more than 30 individual traders actively manages its capital. Each trader is considered as a separate profit center with its own unique trading system. Though the trading strategies are inherently diverse, the development and application of every distinct trading technique still falls within the overarching trading system and rules of the Fundamentals, Technicals, Sentiment, and Risk Management (FTSR) Trading Framework. This framework has been developed for 40 years and is still constantly improving under the Caylum Trading Institute (“Caylum”), the Company’s sister company in the trading education segment.

#### **Business Model**

**Proprietary Trading.** As its main revenue source, the Company has more than thirty traders acting as individual profit centers who actively trade the Philippine and global equity markets, mainly US, Hong Kong, and Japan. These traders consistently generate returns using the firm’s capital, training ecosystem, analytics and risk management infrastructures.

This business segment will remain to be the Company’s largest revenue contributor in the foreseeable future. For the first nine months of 2022, global proprietary trading made up 30% of the total Proprietary Trading revenues, while the other 70% is from the Philippine market.

**Brokerage Services.** As one of the PSE Trading Participants, CTS Global renders stock brokerage and dealership services at a fee for high net-worth clients. Revenues from this side are in fixed commissions based on the transaction amounts.

**Investment Income.** Aside from giving an overall guidance to the trading house’s market and foreign exchange exposure, the Macroeconomics Desk and the Global Research team within CTS Global likewise invests in assets with a longer-term horizon. This allowed the firm to capitalize on strong USD and bond yields for 2022.

**Future Business Segment: Client Account Management.** With plans to officially launch in 2023, the Company intends to provide investment management and other financial advisory services on behalf of its clients with the goal of growing the client’s portfolio over time while mitigating risk. This segment’s model is currently in its testing phase with a model portfolio.

## **Industry and Economic Review**

The markets experienced volatility across asset classes for the first nine months of 2022. Starting from the Russia-Ukraine war, global inflation has forced central banks to raise policy rates. This triggered recessionary fears and liquidity problems, causing equity markets to tumble. The benchmark indices of the US, Hong Kong, and the Philippines exhibited year-to-date returns of -24.8%, -26.4%, and -19.4%, respectively.

In comparison to these benchmarks, CTS Global has returned 5.0% over the same period. Breaking down the company's revenues into the markets which it operates in shows the majority of revenues coming from the local trading revenues at 70%, while global markets contributed 30% of total revenues.

Major trends in the global markets of (1) rising commodity prices, (2) interest rate hikes, and (3) strong US dollar have influenced CTS Global's strategic actions. The company has allocated disbursements to global trading (previously held in USD), treasury bills, bonds, and to commodity-driven Indonesia.

## **Business Review**

### **Key Performance Indicators**

	September 30, 2022	September 30, 2021
Revenue/ Capital <sup>(1)</sup>	5.0%	21.1%
Gross Margin <sup>(2)</sup>	19.8%	34.4%
Net Margin <sup>(3)</sup>	121.4%	25.2%
Global Trading Revenues (in millions)	₱8.5	₱39.6
Local Trading Revenues (in millions)	₱19.7	₱53.9
Net Liquid Capital <sup>(4)</sup> (in millions)	₱1,954.9	₱545.8
Risk-Based Capital Adequacy (RBCA) Ratio <sup>(5)</sup>	1,711%	1,302%

- (1) Revenue/Capital Ratio is computed as revenues divided by the paid-up capital. This is a metric of the firm's efficiency in producing profits out of its capital.
- (2) Gross margin is computed as the gross profit over total revenues, indicating the firm's cost efficiency in relation to revenues.
- (3) Net margin is the net income over total revenues.
- (4) Net Liquid Capital (NLC) is the Equity Eligible for Net Liquid Capital of a Broker Dealer, adjusted for non-allowable current and non-current assets. The Company is required, at all times, to have an NLC of at least ₱5.0 million or 5% of its Aggregate Indebtedness, whichever is higher.
- (5) RBCA Ratio is computed as NLC divided by its Total Risk Capital Requirement. The Company is required, at all times, to meet at least 110%. The ratio ensures that the Company has sufficient capital to sustain operating losses, if any, while maintaining a safe and efficient market.

## **Material Changes in Financial Condition (September 30, 2022 vs December 31, 2021)**

CTS's asset base increased by 136.5% to ₱2.2 billion as of end September 2022 compared to its end 2021 level.

Cash increased by 48.8% to ₱661.0 million as of end September 2022 largely due to ₱1,361.3 million net cash generated from its initial public offering last April 13, 2022, investments made on peso-denominated government debt securities amounting to ₱897.2 million and decrease in payable to clients by ₱143.7 million brought about by net client withdrawals and deployment of their portfolio into the market.

Financial assets at FVPL increased to ₱17.0 million as of end September 2022 largely due to outstanding equity securities held locally and abroad amounting to ₱14.7 million and ₱2.3 million, respectively.

Investment securities at amortized cost increased by ₱897.2 million as of end September 2022 due to purchase of additional peso-denominated government debt securities as equity markets continued to fall and debt securities market provide an alternative opportunity for fixed stream of income.

Trade and other receivables increased by 40.4% to ₱571.0 million. This was largely due to additional funding made to Interactive Brokers, the Company's broker for its global trading, in order to escalate its global trading operations.

Property and equipment and investment property decreased by 12.6% and 4.7%, respectively, mostly due to depreciation and capitalization of a renewed leased storage area.

Trade payables decreased by 43.4% to ₱187.4 million for the year-to-date period. This was largely due to decline in payable to customers brought about by net client withdrawals and deployment of their portfolio into the market.

Other current liabilities were lower by 62.3% at ₱3.4 million mainly due to payment of accrued expenses as of end December 2021.

Net deferred tax liability reversed from a net deferred tax asset position to ₱11.2 million mostly due to deferred tax liability of ₱25.2 million arising from the Company's unrealized foreign exchange gain position on foreign currency-denominated deposits with brokers and deferred tax asset of ₱9.0 million arising from the Company's net operating loss carryover as of end September 2022.

Stockholders' equity was up by 244.3% to ₱2,018.0 million due to the booking of ₱70.9 million in accounting net income as of end September 2022 and net IPO proceeds received amounting to ₱1,361.3 million.

## **Material Changes in the Results of Operations (September 30, 2022 vs September 30, 2021)**

CTS's revenues for the nine months ended September 2022 decreased from ₱107.7 million to ₱58.4 million or by 45.8% largely due to volatile global equity market conditions. Cost of services decreased by 33.8% to ₱46.8 million, mainly due to decrease in commission expenses, personnel costs, and transaction costs. Meanwhile, operating expenses, which are largely fixed in nature, also decreased by 11.4% to ₱19.7 million. Other income grew to ₱93.2 million mostly due to unrealized foreign exchange gain booked as of September 2022. Provision for income taxes increased by 53.7% to ₱14.2 million largely due to provision for deferred income tax arising the Company's unrealized foreign exchange gain position and net of the income tax benefit arising from the Company's net operating loss carryover for nine months ended September 2022. Because of the foregoing movements, accounting net income grew by 125.4% to ₱70.9 million as of end September 2022 driven by trading profits, interest income and tactical foreign exchange positions.

CTS's revenues decreased by 45.8% to ₱58.4 million from ₱107.7 million largely due to lower trading gains on proprietary trading from both local and global stock markets which continued to fall as global inflation remains triggering recessionary fears and liquidity problems. Meanwhile, interest income grew by

707.3% or by ₱16.3 million because of additional investments made in peso-denominated government debt securities this year.

Cost of services decreased by 33.8% to ₱46.8 million from ₱70.7 million mainly due to lower commission expenses booked as of end September 2022 brought about by decrease in related proprietary trading gains as of end September 2022.

Personnel costs booked under operating expenses decreased by 25.6% to ₱7.5 million. Combined with personnel costs booked under cost of services, total personnel costs were down by ₱4.2 million as of end September 2022.

Other income increased by 333.1% to ₱93.2 million largely due to higher unrealized foreign exchange gain booked as of end September 2022. The exchange rates closed at ₱58.91 and ₱7.5047 per US\$1 and HK\$1 on September 30, 2022, respectively, and ₱50.77 and ₱6.51 per US\$1 and HK\$1 on December 31, 2021, respectively.

Total expenses comprised of cost of services and operating expenses decreased by 28.4% to ₱66.5 million from ₱92.9 million.

The net provision for deferred income tax of ₱14.2 million pertains to the Company's unrealized foreign exchange gain position on foreign currency-denominated deposits with brokers and net of the income tax benefit arising from the Company's net operating loss carryover as of nine month ended September 2022. There is no provision for current income tax as of end September 2022 due to the Company's net operating loss position, for tax purposes, of ₱36.0 million.

As a result of the foregoing movements, accounting net income as of end September 2022 increased by 125.4% to ₱70.9 million from ₱31.4 million driven by trading profits, interest income and tactical foreign exchange positions.

## **Other Matters**

- a. CTS is not aware of any known trends, demands, commitments, events or uncertainties that will have a material impact on the Company's liquidity.
- b. The Company does not anticipate any cash flow or liquidity problem in the next 12 months. The Company is not in default or breach of any indebtedness or financing arrangement requiring payments. The Company has paid its trade payables within the trade terms stated.
- c. CTS is not aware of any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- d. CTS is not aware of any material commitments for capital expenditures.
- e. CTS is not aware of any known trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations of the Company.
- f. CTS is not aware of any significant elements of income or loss that did not arise from the Company's continuing operations.
- g. CTS is not aware of any seasonal aspects that had a material effect on the financial condition or results of operations of the Company.

## **PART II – OTHER INFORMATION**

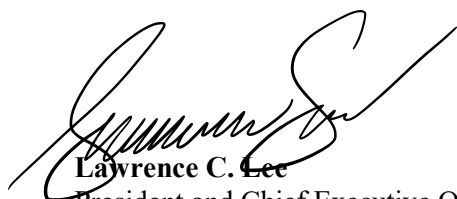
Not applicable. There are no material disclosures that have not been reported under SEC Form 17-C covered by this period.

## SIGNATURES


Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant: **CTS GLOBAL EQUITY GROUP, INC.**

By:



**Lawrence C. Lee**  
President and Chief Executive Officer  
November 16, 2022



**Edmund C. Lee**  
Chief Finance Officer  
November 16, 2022



**CTS GLOBAL EQUITY GROUP, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

	Note	September 30, 2022 (Unaudited)			December 31, 2021 (Audited)		
		Money Balance	Security Valuation		Money Balance	Security Valuation	
			Long	Short		Long	Short
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash	6	₱661,049,394			₱444,299,376		
Financial assets at fair value through profit or loss (FVPL)	7	17,015,560	₱17,015,560		2,061		₱2,061
Investment securities at amortized cost	10	50,000,000			–		
Trade and other receivables	8	571,034,649	680,151,240		406,664,329		42,565,183
Other current assets	9	12,055,082			9,682,656		
<b>Total Current Assets</b>		<b>1,311,154,685</b>			<b>860,648,422</b>		
<b>Noncurrent Assets</b>							
Investment securities at amortized cost	10	897,211,844			50,000,000		
Intangible assets	11	2,855,426			2,536,165		
Property and equipment	12	9,731,838			11,135,896		
Investment property	13	9,803,076			10,285,195		
Net deferred tax assets	21	–			3,019,688		
Other noncurrent assets	14	11,169,565			60,530,748		
<b>Total Noncurrent Assets</b>		<b>930,771,749</b>			<b>87,507,692</b>		
<b>Total Assets</b>		<b>₱2,241,926,434</b>			<b>₱948,156,114</b>		
<b>Securities in Vault, Transfer Offices, and Philippine Depository and Trust Corporation</b>				<b>₱8,918,108,453</b>			<b>₱10,452,610,993</b>
<b>LIABILITIES AND EQUITY</b>							
<b>Current Liabilities</b>							
Trade payables	15	₱187,444,976	8,220,941,653		₱331,096,290		10,410,043,749
Lease liabilities - current portion	20	1,477,920			1,287,355		
Other current liabilities	16	3,362,570			8,922,915		
<b>Total Current Liabilities</b>		<b>192,285,466</b>			<b>341,306,560</b>		
<b>Noncurrent Liabilities</b>							
Net retirement benefit liability	19	19,740,174			19,740,174		
Lease liabilities - net of current portion	20	554,559			921,273		
Net deferred tax liability	21	11,228,699			–		
<b>Total Noncurrent Liabilities</b>		<b>31,523,432</b>			<b>20,661,447</b>		
<b>Total Liabilities</b>		<b>223,808,898</b>			<b>361,968,007</b>		
<b>Equity</b>							
Capital stock	4	687,500,000			550,000,000		
Additional Paid in Capital	4	1,223,556,878			–		
Retained earnings:							
Appropriated	4	6,704,006			4,689,519		
Unappropriated		97,949,090			29,091,026		
Cumulative gain on remeasurement of retirement benefits (net of deferred income tax)		2,407,562			2,407,562		
<b>Total Equity</b>		<b>2,018,117,536</b>			<b>586,188,107</b>		
<b>Total Liabilities and Equity</b>		<b>₱2,241,926,434</b>	<b>₱8,918,108,453</b>	<b>₱8,918,108,453</b>	<b>₱948,156,114</b>	<b>₱10,452,610,993</b>	<b>₱10,452,610,993</b>

See accompanying Notes to Financial Statements.

**CTS GLOBAL EQUITY GROUP, INC.**

**UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME**

		For the Nine Months Ended September 30		For the Quarter Ended September 30	
	Notes	2022	2021	2022	2021
<b>REVENUES</b>					
Trading gains on financial assets at					
FVPL - net	7	<b>₱28,187,601</b>	₱93,483,356	<b>(₱20,265,570)</b>	(₱4,105,001)
Interests	6	<b>18,557,633</b>	2,298,646	<b>14,606,376</b>	774,671
Commissions		<b>10,289,109</b>	10,092,099	<b>2,119,050</b>	5,417,704
Dividends	7	<b>1,342,651</b>	1,868,925	<b>495,768</b>	772,226
		<b>58,376,994</b>	107,743,026	<b>(3,044,376)</b>	2,859,600
<b>COSTS OF SERVICES</b>					
Personnel costs	18	<b>17,576,267</b>	19,222,077	5,293,224	4,685,387
Commissions		<b>14,720,537</b>	37,204,006	4,278,530	6,137,437
Transaction costs		<b>9,584,271</b>	9,798,525	3,418,333	1,943,679
Research		<b>1,802,741</b>	1,694,973	637,547	577,812
Stock exchange dues and fees		<b>1,628,523</b>	1,333,966	557,987	633,740
Central depository fees		<b>860,301</b>	762,286	244,595	268,855
Communications		<b>617,365</b>	645,108	204,588	206,539
		<b>46,790,005</b>	70,660,941	<b>14,634,804</b>	14,453,449
<b>GROSS PROFIT (LOSS)</b>		<b>11,586,989</b>	37,082,085	<b>(17,679,180)</b>	(11,593,849)
<b>OPERATING EXPENSES</b>					
Personnel costs	18	<b>7,532,686</b>	10,119,883	<b>2,268,525</b>	3,889,873
Professional fees		<b>1,836,000</b>	1,326,107	<b>1,136,000</b>	751,500
Condominium dues, power and water		<b>1,274,682</b>	1,301,110	<b>465,119</b>	450,475
Insurance and bonds		<b>1,164,925</b>	1,089,685	<b>524,004</b>	425,296
Taxes and licenses		<b>1,120,813</b>	1,317,995	<b>461,751</b>	437,374
Communications		<b>895,825</b>	924,981	<b>291,632</b>	292,927
Security and other manpower services		<b>851,904</b>	893,003	<b>266,800</b>	299,551
Office supplies		<b>286,432</b>	245,171	<b>117,748</b>	107,892
Trainings and seminars		<b>235,290</b>	453,287	<b>62,807</b>	178,437
Repairs and maintenance		<b>189,660</b>	59,227	<b>31,989</b>	10,670
Transportation and travel		<b>46,310</b>	38,198	<b>12,258</b>	10,747
Others		<b>882,209</b>	431,493	<b>282,115</b>	119,272
		<b>16,316,736</b>	18,200,140	<b>5,920,748</b>	6,974,014
Depreciation and amortization	11	<b>3,258,538</b>	3,311,718	<b>1,059,955</b>	1,111,095
Interest expense	20	<b>110,505</b>	707,508	<b>90,475</b>	685,462
		<b>19,685,779</b>	22,219,366	<b>7,071,178</b>	8,770,571
<b>OTHER INCOME (EXPENSES)</b>					
Foreign exchange gains - net		<b>93,082,380</b>	21,718,372	<b>48,220,501</b>	17,910,854
Reversal of (provision for) credit losses	8	<b>137,348</b>	(193,989)	<b>846,571</b>	(249,288)
		<b>93,219,728</b>	21,524,383	<b>49,067,072</b>	17,661,566
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>₱85,120,938</b>	₱36,387,102	<b>₱24,316,714</b>	(₱2,702,854)

(Forward)

	Note	For the Nine Months Ended September 30		For the Quarter Ended September 30	
		2022	2021	2022	2021
<b>INCOME TAX EXPENSE (BENEFIT)</b>	21				
Current		<b>₱–</b>	₱2,589,117	<b>(₱263,340)</b>	(₱3,334,757)
Deferred		<b>14,248,387</b>	6,682,823	<b>3,578,870</b>	2,231,686
		<b>14,248,387</b>	9,271,940	<b>3,315,530</b>	(1,103,071)
<b>NET INCOME (LOSS)</b>		<b>70,872,551</b>	27,115,162	<b>21,001,184</b>	(1,599,783)
<b>OTHER COMPREHENSIVE INCOME</b>					
<i>Not to be reclassified to profit or loss on subsequent periods</i>					
Remeasurement gain (loss) on retirement benefits		–	5,772,318	–	5,772,318
Deferred income tax benefit (expense)		–	(1,443,080)	–	(1,571,191)
		–	4,329,328	–	4,329,328
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱70,872,551</b>	₱31,444,400	<b>₱21,001,184</b>	₱2,729,455
<b>Basic/Diluted Earnings Per Share</b>	22	<b>₱0.0116</b>	₱0.0053	<b>₱0.0034</b>	(₱0.0003)

See accompanying Notes to Financial Statements.

**CTS GLOBAL EQUITY GROUP, INC.**

**UNAUDITED STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022  
(With Comparative Figures for the Nine Months Ended September 30, 2021)**

	Note	Capital Stock	Additional Paid-in Capital	Retained Earnings		Total	Cumulative Remeasurement Gains (Losses) on Retirement Benefits (net of Deferred Income Tax)	Total Equity
				Appropriated	Unappropriated			
Balances at December 31, 2021		<b>₱550,000,000</b>	<b>₱–</b>	<b>₱4,689,519</b>	<b>₱29,091,026</b>	<b>₱33,780,545</b>	<b>₱2,407,562</b>	<b>₱586,188,107</b>
Issuance of shares	4	<b>137,500,000</b>	<b>1,223,556,878</b>	–	–	–	–	<b>1,361,056,878</b>
Net income		–	–	–	<b>70,872,551</b>	<b>70,872,551</b>	–	<b>70,872,551</b>
Appropriation	4	–	–	<b>2,014,487</b>	<b>(2,014,487)</b>	–	–	–
<b>Balances at September 30, 2022</b>		<b>₱687,500,000</b>	<b>₱1,223,556,878</b>	<b>₱6,704,006</b>	<b>₱97,949,090</b>	<b>₱104,653,096</b>	<b>₱2,407,562</b>	<b>₱2,018,117,536</b>
Balances at December 31, 2020		₱500,000,000	₱–	₱–	₱15,249,292	₱15,249,292	(₱1,793,565)	₱513,455,727
Issuance of shares		50,000,000	–	–	–	–	–	50,000,000
Cost of share issuance		–	–	–	(500,000)	(500,000)	–	(500,000)
Net income		–	–	–	27,115,162	27,115,162	–	27,115,162
Appropriation	4	–	–	4,689,519	(4,689,519)	–	–	–
Other comprehensive gain	18	–	–	–	–	–	4,329,238	4,329,238
<b>Balances at September 30, 2021</b>		<b>₱550,000,000</b>	<b>₱–</b>	<b>₱4,689,519</b>	<b>₱37,174,935</b>	<b>₱41,864,454</b>	<b>₱2,535,673</b>	<b>₱594,400,127</b>

See accompanying Notes to Financial Statements.

**CTS GLOBAL EQUITY GROUP, INC.**

**UNAUDITED STATEMENTS OF CASH FLOWS**

For the Nine Months Ended September 30

	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱85,120,938</b>	₱36,387,102
Adjustments for:		
Unrealized foreign exchange gains - net	<b>(93,082,380)</b>	(21,718,372)
Interest income	<b>(18,557,633)</b>	(2,298,646)
Depreciation and amortization	<b>3,258,538</b>	3,311,718
Dividend income	<b>(1,342,651)</b>	(1,868,925)
Unrealized gain (loss) on financial assets at FVPL - net	<b>236,532</b>	(1,146,159)
Provision for (reversal of) credit losses	<b>(137,348)</b>	193,989
Interest expense	<b>110,505</b>	707,508
Retirement benefit expense	<b>–</b>	1,881,850
Operating income before working capital changes	<b>(24,393,499)</b>	15,450,065
Decrease (increase) in:		
Financial assets at FVPL	<b>(12,036,028)</b>	(57,220,595)
Trade and other receivables	<b>(69,269,379)</b>	(29,245,531)
Other current assets	<b>(2,372,426)</b>	(245,645)
Other noncurrent assets	<b>(638,817)</b>	(533,821)
Increase (decrease) in:		
Trade payables	<b>(143,651,314)</b>	(56,372,964)
Other current liabilities	<b>(5,872,031)</b>	(5,732,408)
Net cash generated from (used for) operations	<b>(258,233,494)</b>	(133,900,899)
Interest received	<b>6,464,594</b>	2,298,256
Dividend received	<b>1,346,971</b>	1,871,404
Income taxes paid	<b>–</b>	(11,059,871)
Net cash used in operating activities	<b>(250,421,929)</b>	(140,791,110)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to investment securities at amortized cost	<b>(897,211,844)</b>	–
Additions to property and equipment	<b>(211,403)</b>	(328,601)
Additions to intangible assets under development	<b>(618,000)</b>	–
Additions to intangible assets	<b>–</b>	(415,893)
Net cash used in investing activities	<b>(898,041,247)</b>	(744,494)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from issuance of shares	<b>1,361,056,878</b>	49,500,000
Payments on lease liabilities	<b>(1,077,576)</b>	(1,070,005)
Net cash provided by financing activities	<b>1,359,979,302</b>	48,429,995

(Forward)

	<b>For the Nine Months Ended September 30</b>	
	<b>2022</b>	<b>2021</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>₱211,516,126</b>	<b>(₱93,105,609)</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>5,233,892</b>	<b>18,515</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>444,299,376</b>	<b>423,021,672</b>
<b>CASH AT END OF YEAR</b>	<b>₱661,049,394</b>	<b>₱329,934,578</b>

*See accompanying Notes to Financial Statements.*

**CTS GLOBAL EQUITY GROUP, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

CTS Global Equity Group, Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on June 26, 1986. The Company is a licensed broker/dealer of securities with the SEC, and both a stockholder and holder of a trading right of the Philippine Stock Exchange (PSE).

On October 16, 2019, the Board of Directors (BOD) and stockholders of the Company approved the following amendments to the Company's Articles of Incorporation (AOI): (a) change in primary purpose to include incidental activities of the Company to buy, sell or otherwise deal in foreign exchange; to hold interest in any form of association; to purchase, hire, own, or otherwise acquire and dispose of any lands, tenants, buildings, or property, which may be necessary or convenient for the immediate needs of the corporation and its staff; (b) change in the term of existence from 50 years from and after the date of incorporation to a perpetual existence; and (c) increase in authorized capital stock of the corporation from ₱200.0 million divided into 2.0 million shares of common stock at ₱100.0 par value per share to ₱800.0 million divided into 800.0 million shares of common stock at ₱1.0 par value per share. These amendments were approved by the SEC on January 22, 2020.

On April 8, 2020, the BOD and stockholders of the Company approved the following amendments to the Company's AOI: (a) the name of the Company shall be "CTS Global Equity Group, Inc." doing business under the trade names and styles of CTS Global, CTS Global Equities, CTS Global Securities, CTS Securities, Citisecurities (formerly Citisecurities, Inc.); and (b) the authorized capital stock of the corporation amounting to ₱800.0 million shall be divided into 8.0 billion shares of common stock at ₱0.10 par value per share. These amendments were approved by the SEC on April 14, 2021 (see Note 4).

On November 5, 2021, the BOD and stockholders of the Company authorized the Company to undertake an initial public offering (IPO) of its shares with the Philippine Stock Exchange, Inc. (PSE). Subsequently, on March 10, 2022 and March 16, 2022, the SEC and the PSE, respectively, approved the Company's application for IPO.

On April 13, 2022, the Company completed its initial public offering and was listed in the Philippine Stock Exchange (PSE) under the stock symbol CTS. The Company listed 1,375,000,000 common shares at an offer price of ₱1.00 per share. The proceeds from the IPO amounted to ₱1,375,000,000.

The registered office address of the Company is 27/F East Tower, Tektite Towers, Exchange Road, Ortigas Center, Pasig City.

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## 2. Summary of Significant Accounting Policies

### **Basis of Preparation**

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine interpretations from International Financial Reporting Interpretations Committee (IFRIC).

The significant accounting policies used in the preparation of the financial statements are consistently applied to all the years presented, unless otherwise stated.

The statements of financial position contain some additional information in line with the requirements of Rule 52.1 of the Implementing Rules and Regulations of the Securities Regulation Code.

### **Measurement Bases**

The financial statements are presented in Philippine Peso (Peso), the Company's functional currency. All values are stated in absolute amounts, unless otherwise indicated.

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL).

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability. 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 Company uses observable market data to the extent possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the following valuation techniques:

- 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; or
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is disclosed in the following notes to the financial statements:

- Note 5 - Fair Value Measurement
- Note 7 - Financial Assets at FVPL
- Note 13 - Investment Property



### **Adoption of Amended PFRS**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS –

- Amendment to PFRS 16, *Leases - COVID-19-Related Rent Concessions beyond June 30, 2021* – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021.

Due to the continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The 2021 amendment is mandatory for entities that elected to apply the previous amendment.

The adoption of the amended PFRS did not materially affect the financial statements of the Company. Additional disclosures were included in the financial statements, as applicable.

### **Amended PFRS Issued But Not Yet Effective**

Relevant amended PFRS, which are not yet effective as at December 31, 2021 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* - The amendments will replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendments include an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement will ensure that the liabilities recognized in a business combination will remain the same as those recognized applying the current requirements in PFRS 3. The amendments also clarified that an acquirer shall not recognize contingent assets acquired in a business combination. The amendments should be applied prospectively.
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* - The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applied the amendments.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* - The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other

component of equity, as applicable. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Amendment to PFRS 9, *Financial Instruments - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the '10 per cent' test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendments. Earlier application is permitted.
- Amendments to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current* - The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity's right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2, *Making Materiality Judgements*, is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.
- Amendments to PAS 8, *Definition of Accounting Estimates* - The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy require an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to

develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.

- Amendments to PAS 12, *Deferred Tax Related Assets and Liabilities from a Single Transaction* - The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Earlier application is permitted.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company. Additional disclosures will be included in the financial statements, as applicable.

### **Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity or a financial liability or equity instrument of another entity.

*Date of Recognition.* The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*“Day 1” Difference.* Where the transaction in a non-active market is different from the fair value of 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 profit or loss. In cases where there is no observable data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference.

### **Financial Assets**

*Initial Recognition and Measurement.* Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

*Classification.* The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost, and (c) financial assets at fair value through other comprehensive income (FVOCI). The classification of a financial instrument largely depends on the Company’s business model and its contractual cash flow characteristics.

As at September 30, 2022 and December 31, 2021, the Company does not have financial assets at FVOCI.

*Financial Assets at Amortized Cost.* Financial assets shall be measured at amortized cost if both of the following conditions are met:

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at September 30, 2022 and December 31, 2021, the Company's cash, investment securities at amortized cost, trade and other receivables, and refundable deposits (included under "Other noncurrent assets" account in the statements of financial position) are classified under this category (see Notes 6, 8, 9 and 14).

*Financial Assets at FVPL.* Financial assets at FVPL are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not "solely for payment of principal and interest", and which are not held within a business model whose objective is either to collect contractual cash flows or to both collect contractual cash flows and sell. The Company may, at initial recognition, designate a debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Company had not irrevocably elected to classify at FVOCI at initial recognition.

Dividends from equity instruments held at FVPL are recognized in profit or loss when the right to receive payment is established unless the dividend clearly represents a recovery of part of the cost of the investment.

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As at September 30, 2022 and December 31, 2021, the Company's investments in various listed equity securities are classified under this category (see Note 7).

*Reclassification.* The Company reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at

amortized cost, its fair value at the reclassification date becomes its new carrying amount.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

*Impairment of Financial Assets at Amortized Cost.* For trade receivables, the Company has applied the simplified approach and has calculated expected credit losses (ECL) based on the lifetime ECL. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to its customers and the economic environment.

For other financial assets measured at amortized cost, the Company applies a general approach in calculating ECL. The Company recognizes a loss allowance based on either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk on its other receivables since initial recognition.

The Company considers a financial asset in default when contractual payments are 30 days past due unless it is demonstrated that the non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower. 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.

*Derecognition.* A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Company has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Company could be required to repay.

## **Financial Liabilities**

*Initial Recognition and Measurement.* Financial liabilities are recognized initially at fair value, which is the fair value of the consideration received. In case of financial liabilities at amortized costs, the initial measurement is net of any directly attributable transaction costs.

*Classification.* The Company classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost.

As at September 30, 2022 and December 31, 2021, the Company does not have financial liabilities at FVPL.

*Financial Liabilities at Amortized Cost.* Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at September 30, 2022 and December 31, 2021, the Company's trade payables, other current liabilities (excluding statutory payables), and lease liabilities are classified under this category (see Notes 15, 16 and 20).

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

*Classification of Financial Instrument between Liability and Equity.* A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

### **Offsetting of Financial Assets and Liabilities**

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

### **Other Current Assets**

Other current assets are comprised mainly of excess tax credits, prepayments, advances to officers and employees, prepayments and input value-added tax (VAT).

*Excess Tax Credits.* Excess tax credits pertain to creditable withholding tax (CWT) and prepaid income tax. CWT pertains to tax on the Company's income withheld and remitted to the Bureau of Internal Revenue (BIR) by customers and deducted from income tax payable on the same year the income was recognized. Prepaid income tax pertains to excess income tax payments of the Company over the amount due. Unapplied or excess income tax payments are carried forward and can be utilized in succeeding years.

*Prepayments.* Prepayments are expenses paid in advance and recorded as assets before these are utilized. Prepayments are apportioned over the period covered by the payment and included in profit or loss when incurred. Prepayments that are expected to be realized for not more than 12 months after the financial reporting period are classified as current assets. Otherwise, these are classified as noncurrent assets.

*Advances to Officers and Employees.* Advances to officers and employees are measured at face amount. These pertain to payments made to the Company's officers and employees in relation to the operations of the Company. These are recognized as expense upon liquidation of said advances.

### **Value-Added Tax (VAT)**

VAT is a tax on consumption levied on the sale, barter, exchange, or lease of goods or properties and services, and on importation of goods in the Philippines. It is an indirect tax, which may be shifted or passed on to the buyer, transferee or lessee of goods, properties or services.

Revenue, expenses, and assets are recognized net of the amount of VAT, except:

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

The net amount of VAT recoverable from or payable to the taxation authority is included as part of "Other current assets" or "Other current liabilities" accounts, respectively, in the statements of financial position.

### **Deferred Input VAT**

In accordance with the Revenue Regulation (RR) No. 16-2005, input VAT on purchases or imports of the Company of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of VAT) in each of the calendar month exceeding ₱1.0 million are claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods, whichever is shorter.

Deferred input VAT represents the unamortized amount of input VAT on capital goods and input VAT on the unpaid portion of availed services. Deferred input VAT on capital goods is classified as current assets if it is expected to be claimed against output VAT within twelve (12) months after the reporting date. Otherwise, these are classified as noncurrent assets. Where the aggregate acquisition cost (exclusive of VAT) of the existing or finished depreciable capital goods purchased or imported during any calendar month does not exceed ₱1.0 million, the total input VAT will be allowable as credit against output VAT in the month of acquisition.

### **Intangible Assets**

Intangible assets pertain to software and licenses and exchange trading right.

*Software and Licenses.* Software and licenses are measured on initial recognition at cost. Subsequent to initial recognition, software and licenses are carried at cost less accumulated amortization and any accumulated impairment losses. Software and licenses are amortized over its estimated economic life of 10 years and assessed for impairment whenever there is an indication that the software and licenses may be impaired.

The amortization period and method are reviewed at least at each reporting date. Changes in the expected economic life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

*Exchange Trading Right.* Exchange trading right is initially measured at cost. It is an intangible asset with indefinite useful life and is tested for impairment annually. Exchange trading right is not amortized but is carried at cost less accumulated impairment losses, if any. The exchange trading right is deemed to have indefinite useful lives as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company. The assumption that the exchange trading right remains to be an intangible asset with an indefinite life is reviewed annually to determine whether this continues to be supportable as such. If not, the carrying amount of the asset is amortized over its remaining useful life on a straight-line basis unless a more appropriate amortization method is warranted. Any impairment losses determined are recognized in profit or loss.

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and recognized in profit or loss in the period of derecognition.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization and any accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price, after deducting trade discounts and rebates, and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs, maintenance, and overhaul costs, are normally recognized in profit or loss in the year 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 property and equipment.



Depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the property and equipment:

	Number of Years
Office condominium units and improvements	10 to 20
Leasehold improvements	10 or lease term, whichever is shorter
Furniture, fixtures, and office equipment	2 to 5

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

Fully depreciated assets are retained in the account until they are no longer in use and no further change for depreciation is made in respect of those assets.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment losses are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

#### **Investment Property**

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business or for administrative purposes.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost, less accumulated depreciation and any impairment in value. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Depreciation of investment property is calculated on a straight-line basis over a 20-year estimated useful life. The estimated useful life and depreciation method are reviewed periodically to ensure that these are consistent with expected pattern of economic benefits of investment property.

Investment property is derecognized when either they have been disposed of or the investment property is permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment property are recognized in profit or loss in the period of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

For transfers from investment property to owner-occupied properties or inventories, the cost for subsequent accounting is its carrying amount at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such in accordance with the policy under property and equipment up to the date of change in use.

#### **Impairment of Nonfinancial Assets**

The carrying amounts of nonfinancial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable, except for the exchange trading right where test of impairment is done annually. If any such indication exists and when the carrying amounts exceed the estimated recoverable amounts, the assets or cash-generating units

(CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of the fair value less cost to sell or value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in profit or loss.

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. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization charges are adjusted in future years to allocate the asset's revised carrying amount, on a systematic basis over its remaining useful life.

### **Equity**

*Capital Stock.* Capital stock is measured at par value for all shares issued and outstanding.

*Additional Paid-in Capital.* The amount of contribution in excess of par value is accounted for as 'Additional Paid-in Capital'.

*Retained Earnings (Deficit).* Retained earnings (deficit) represent the cumulative balance of net income or loss, net of any dividend declarations. At each reporting date, net income or loss of the Company is transferred to retained earnings. Appropriated retained earnings pertain to the restricted portion which is intended for the reserve fund in compliance with the SRC Rule 49.1 (B). When the retained earnings amount has a debit balance, it is called 'deficit'. A deficit is a deduction from equity.

Incremental costs directly attributable to the issuance of new common stock are recognized as a deduction from equity, net of any tax effects.

*Other Comprehensive Income (OCI).* OCI pertains to cumulative remeasurement gains or losses on net retirement benefit liability, net of related deferred tax.

### **Revenue Recognition**

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company perform its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed that it acts as agent in its brokerage transactions. The Company acts as a principal in its income from other sources.

*Commissions.* These pertain to the revenue from brokerage transactions, which are recorded on trade date basis as trade transaction occurs.

The following specific recognition criteria must also be met for other revenues:

*Trading Gains or Losses on Financial Assets at FVPL.* Trading gains or losses on financial assets at FVPL include all gains and losses from changes in fair value and disposal of financial assets at FVPL. Unrealized gains or losses are recognized in profit or loss upon remeasurement of the financial assets at FVPL at each reporting date. Gains or losses from sale of financial assets at FVPL are recognized in profit or loss upon confirmation of trade deals.

*Interests.* Interest income is recognized in profit or loss as it accrues, taking into account the effective yield of the asset.

*Dividends.* Dividend income is recognized when the Company's right to receive the payment is established, which is generally when the board of directors approves the dividend declaration.

*Other Income.* Income from other sources is recognized when earned during the period.

### **Cost and Expense Recognition**

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

*Costs of Services.* Costs of services such as commissions, direct personnel costs, transaction costs, research costs, stock exchange dues and fees, central depository fees and communication costs are recognized when the related revenue is recognized or when the service is rendered.

*Operating Expenses.* Operating expenses incurred by the Company such as indirect personnel costs, utility costs, and other operating expenses are administrative overhead costs and are recognized in profit or loss when incurred.

### **Employee Benefits**

*Short-term Benefits.* The Company recognizes short-term employee benefits based on contractual arrangements with employees. Unpaid portion of the short-term employee benefits are measured on an undiscounted basis and is included as part of "Other current liabilities" account in the statements of financial position.

*Retirement Benefits.* Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. The calculation of defined benefit liability is performed annually by a qualified actuary. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

The Company recognizes service costs, comprising of current service costs and past service costs in profit or loss. Net interest costs on retirement benefit liability is presented as part of "Interest expense" account in the statements of comprehensive income.

The Company determines the net interest expense by applying the discount rate to the net defined liability at the beginning of the year, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

Remeasurements of the retirement benefit liability, comprising of actuarial gains and losses, return on plan assets (excluding interest), and effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI and are not reclassified to profit or loss in subsequent periods.

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 and losses on the settlement of a defined benefit plan when the settlement occurs.

The net retirement benefit liability recognized by the Company is the aggregate of the present value of the defined benefit liability reduced by the fair value of plan assets, out of which the obligations are to be settled directly. The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefit liability. Actuarial valuations are made so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

### **Leases**

The Company assesses whether the contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified assets for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:

- i. The right to obtain substantially all of the economic benefits from use of the identified asset; and
- ii. The right to direct the use of the identified asset.

If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Company also assesses whether a contract contains a lease for each potential separate lease component. The Company recognizes a ROU asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee.

*Company as a Lessee.* At the commencement date, the Company recognizes a ROU asset and a lease liability for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

*ROU Assets.* At commencement date of the lease contract, the Company measures a ROU asset (presented as part of property and equipment account) at cost. The initial measurement of ROU assets includes the following:

- The amount of the initial measurement of lease liability;
- Lease payments made at or before the commencement date less any lease incentives received;
- Initial direct costs; and
- An estimation of costs to be incurred by the Company in dismantling and removing the underlying asset, when applicable.

After the commencement date, the ROU assets are carried at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are depreciated over the shorter of the lease terms or the useful lives of the underlying assets.

*Lease Liabilities.* At commencement date, the Company measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonable certain not to terminate early.

A lease liability is subsequently measured at amortized cost. Interest expense on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

### **Income Taxes**

*Current Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

*Deferred Tax.* Deferred tax is provided 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 that are expected to increase future taxable income. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits from the excess of 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 taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and 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 expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items directly recognized to equity or in OCI.

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

### **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individual or corporate entities. Transactions between related parties are accounted for at arm's-length prices or on terms similar to those offered to non-related parties in an economically comparable market. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

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

Related party transactions are considered material and/or significant if i) these transactions amount to 10% or higher of the Company's total assets or, ii) there are several transactions or a series of transactions over a 12-month period with the same related party amounting to 10% or higher of the Company's total assets.

### **Foreign Currency-Denominated Transactions**

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate at reporting date. Differences arising on settlement or translation of monetary assets and liabilities are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

### **Segment Reporting**

The Company reports separate information about each operating segment identified. An operating segment is a component of the Company that engages in business activities: from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components; from whose operating results are regularly reviewed to make decisions about resources to be allocated to the segment; and for which discrete information is available.

### **Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example

under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

#### **Contingencies**

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

#### **Earnings per Share (EPS)**

Basic EPS is calculated by dividing the net income (less preferred dividends net of tax, if any) for the year attributable to common stockholders by the weighted average number of common stocks outstanding during the year, with retroactive adjustment for any stock dividends or stock splits declared during the year.

Diluted EPS is computed by dividing net income by the weighted average number of common stocks outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year, and adjusted for the effect of dilutive options.

#### **Events after the Reporting Date**

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

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### **3. Summary of Significant Judgments, Accounting Estimates, and Assumptions**

The preparation of the financial statements requires management to exercise judgments and make accounting estimates and assumptions that affect the amounts reported in the financial statements and related notes. The judgments and accounting estimates, and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the reporting date. 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 estimated amounts. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The following are the significant judgments, accounting estimates, and assumptions by the Company:

#### **Judgments**

*Determination of the Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be Philippine Peso, which is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the economic value of the income and costs from the Company's operations.

*Classification and Measurement of Financial Assets.* Classification and measurement of financial assets depends on the results of the “solely for payments of principal and interests” and the business model test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance of the assets, and how these risks are managed.

The Company monitors financial assets measured at FVPL or amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company’s continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate. Otherwise, change in the business model should result to a change in the classification of those financial assets.

As at September 30, 2022 and December 31, 2021, the Company’s investments in various listed equity securities and investment securities at amortized cost are classified as financial assets at FVPL and amortized cost, respectively (see Notes 7 and 10).

*Fair Value Measurement of Financial Instruments.* The fair values of securities that are actively traded in organized financial markets are determined by reference to unadjusted quoted market prices at the close of business on the reporting date.

When the fair values of financial assets recorded in the statements of financial position cannot be measured based on quoted prices in active market, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to this model are taken from observable market when possible, but when this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

In accordance with the amendments to PFRS 7, disclosures about the level in the fair value hierarchy are required in which the fair value measurements are categorized for assets and liabilities measured in the statements of financial position.

Assumptions and methods of determining the fair values of financial instruments are presented in Note 5 to the financial statements.

*Determination of the Operating Segments.* The Company is organized into operating segments based on business activities as allowed under PFRS 8, *Operating Segments* due to their similar characteristics. This is evidenced by a consistent range of gross margin across all business activities as well as uniformity in revenue trend for all business activities. Moreover, all business activities have the following business characteristics:

- Similar nature of products/services offered and methods to distribute products and provide services;
- Similar class of target customers; and
- Primary place of operations is in the Philippines.

As at September 30, 2022 and December 31, 2021, the Company determined that it has two operating segments which pertain to local and global trading (see Note 23).

*Evaluation of the Adequacy of Tax Liabilities.* The Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors,



including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### **Accounting Estimates and Assumptions**

*Assessment of the ECL on Trade and Other Receivables.* The Company, applying the simplified approach in the computation of ECL, initially uses a provision matrix based on historical default rates for trade receivables. The provision matrix specifies provision rates depending on the number of days that a trade receivable is past due. The Company also uses appropriate groupings if its historical credit loss experience show significantly different loss patterns for different customer segments. The Company then adjusts the historical credit loss experience with forward-looking information on the basis of current observable data affecting each customer segment to reflect the effects of current and forecasted economic conditions. The Company regularly reviews the methodology and assumptions used for estimating ECL to reduce any differences between estimates and actual credit loss experience.

The determination of the relationship between historical default rates and forecasted economic conditions is a significant accounting estimate. Accordingly, the provision for credit losses on trade receivables is sensitive to changes in assumptions about forecasted economic conditions.

Provision for (reversal of) credit losses on trade receivables are as follows:

	Note	September 30, 2022 (Unaudited)	September 30, 2021 (Audited)
Provision for (reversal of) credit losses on trade receivables	8	<b>(P137,348)</b>	₱193,989

The carrying amounts of trade and other receivables and related allowance for credit losses are as follows:

	Note	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Trade and other receivables	8	<b>₱571,399,453</b>	₱407,166,481
Allowance for credit losses	8	<b>364,804</b>	502,152

*Assessment of the ECL on Other Financial Assets at Amortized Cost.* The Company determines the allowance for ECL using general approach. The Company calculates ECL for its other financial assets at amortized cost at initial recognition by considering the occurrences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on lifetime ECL.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions;
- Actual or expected significant adverse changes in the operating results of the borrower.

The Company also considers financial assets that are more than 30 days past due to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent a significant risk in credit risk such as when non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower.

The Company has assessed that the ECL on other financial assets at amortized cost is not material because the transactions with respect to these financial assets were entered into by the Company only with reputable banks and companies with good credit standing and relatively low risk of defaults. Accordingly, no provision for credit losses on other financial assets at amortized cost was recognized in September 2022 and 2021.

The carrying amounts of other financial assets at amortized cost are as follows:

	Note	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Cash	6	₱661,049,394	₱444,299,376
Investment securities at amortized cost	10	947,211,844	50,000,000
Refundable deposits*	14	10,902,339	10,277,093

\*Included under "Other noncurrent assets" account in the statements of financial position.

*Estimation of the Useful Lives of Intangible Assets, Property and Equipment (including Right-of-Use Assets), and Investment Property.* The exchange trading right is deemed to have indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Company. The useful lives of software and licenses, property and equipment, and investment property are estimated based on the period over which the assets are expected to be available for use and are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of software and licenses, property and equipment and investment property.

The useful lives are updated if expectations differ from previous estimates due to physical wear and tear, and technical and commercial obsolescence. Any reduction in the estimated useful lives of these assets would increase the Company's recorded operating expenses and decrease noncurrent assets.

There is no change in the estimated useful lives of software and licenses, property and equipment and investment property in September 2022 and 2021.

*Assessment of the Impairment of Nonfinancial Assets.* The Company assesses impairment on intangible assets, property and equipment (including right-of-use assets), investment property, and other nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of the assets or Company of assets may not be recoverable. The relevant factors that the Company considers in deciding whether to perform an asset impairment review include, among others, the following:

- Significant underperformance of a business in relation to expectations;
- Significant negative industry or economic trends; and
- Significant changes or planned changes in the use of the assets.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The recoverable amount of the asset is the greater of the fair value less cost of disposal or value in use. The fair value less cost to sell is the net amount obtainable from the sale of an asset in an

arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

No impairment loss on intangible assets, property and equipment, investment property and other nonfinancial assets was recognized in September 2022 and 2021.

The carrying amounts of nonfinancial assets are as follows:

		<b>September 30, 2022</b>	December 31, 2021
	Note	<b>(Unaudited)</b>	(Audited)
Property and equipment	12	<b>₱ 9,731,838</b>	₱11,135,896
Investment property	13	<b>9,803,076</b>	10,285,195
Intangible assets	11	<b>2,855,426</b>	2,536,165
Other current assets	9	<b>12,055,082</b>	9,682,656
Other noncurrent assets*	14	<b>267,226</b>	253,655

\*Excluding refundable deposits aggregating ₱10.9 million and ₱10.3 million as at September 30, 2022 and December 31, 2021, respectively.

*Determination of the Retirement Benefits.* The determination of the obligation and cost of retirement benefit is dependent on the assumptions used by the actuary in calculating such amounts. The assumptions are described in Note 19 to the financial statements and include, among others, discount rates and salary increase rates. Actual results that differ from the Company's assumptions are recognized in OCI and, therefore, generally affect the recorded obligation in such future periods.

Net retirement benefit liability amounted to ₱19.7 million as at September 30, 2022 and December 31, 2021, respectively (see Note 19).

*Recognition of Deferred Tax Assets.* The Company reviews the carrying amount of deferred tax assets at each reporting date and adjusts the balance 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 within the period allowed by the tax regulations.

The Company recognized deferred tax assets amounting to ₱14.6 million and ₱5.6 million as at September 30, 2022 and December 31, 2021, respectively, because management believes that the Company will be able to generate sufficient taxable income against which these deferred tax assets can be utilized (see Note 21).

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#### 4. Financial Risk Management Objectives and Policies

The Company's financial instruments consist mainly of cash, financial assets at FVPL, investment securities at amortized cost, trade and other receivables, and refundable deposits (included under "Other noncurrent assets" account in the statements of financial position), trade payables, other current liabilities (excluding statutory liabilities), and lease liabilities.

The main risks arising from the Company's use of financial instruments include credit risk, liquidity risk, and market risk. The Company's overall risk management process focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The BOD regularly reviews and approves the appropriate policies for managing these financial risks, as summarized below.

##### **Credit Risk**

The Company's exposure to credit risk arises when the counterparty fails to fulfill its financial commitments to the Company under the prevailing contractual terms. Financial instruments that

potentially subject the Company to credit risk consist primarily of trade receivables and other financial assets at amortized cost.

The carrying amounts of the financial assets at amortized cost represent its maximum credit exposure, without taking into account any collateral, other credit enhancements or credit risk mitigating features. The table below presents the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL. Assets that are credit-impaired, if any, are separately presented.

	September 30, 2022 (Unaudited)			Total
	12-month ECL	Lifetime ECL – Not Credit-Impaired	Lifetime ECL – Credit-Impaired	
Financial assets at amortized cost:				
Cash	₱661,037,394	₱–	₱–	₱661,037,394
Trade and other receivables	–	571,399,453	–	571,399,453
Investment securities at amortized cost	50,000,000	897,211,844	–	947,211,844
Refundable deposits*	–	10,902,339	–	10,902,339
	<b>₱711,037,394</b>	<b>₱1,479,513,636</b>	<b>₱–</b>	<b>₱2,190,551,030</b>

\*Included under "Other noncurrent assets" account in the statements of financial position.

	December 31, 2021 (Audited)			Total
	12-month ECL	Lifetime ECL – Not Credit-Impaired	Lifetime ECL – Credit-Impaired	
Financial assets at amortized cost:				
Cash	₱444,287,376	₱–	₱–	₱444,287,376
Trade and other receivables	–	407,166,481	–	407,166,481
Investment securities at amortized cost	50,000,000	–	–	50,000,000
Refundable deposits*	–	10,277,093	–	10,277,093
	<b>₱494,287,376</b>	<b>₱417,443,574</b>	<b>₱–</b>	<b>₱911,730,950</b>

\*Included under "Other noncurrent assets" account in the statements of financial position.

The Company limits its exposure to credit risk by maintaining its deposit with highly reputable and pre-approved financial institutions. In addition, customers are initially assessed for creditworthiness based on their profile (i.e., financial capacity, reputation, collateral). The Company mitigates its credit risk by transacting with recognized and creditworthy counterparties. The Company also monitors receivable balances regularly. In accordance with the Risk-Based Capital Adequacy (RBCA) requirements, limits are imposed to avoid large exposure to a single client or counterparty and single equity relative to a particular issuer company or group of companies. Furthermore, credit exposures are minimized by collateral held in the form of securities purchased.

The Company has no significant concentration of credit risk with any single counterparty or Company of counterparties having similar characteristics.

#### *Trade Receivables*

The Company uses a provision matrix to calculate ECL for trade receivables. The provision rates are based on days past due for groupings of various customer segments analyzed by customer type, credit terms, and number of days outstanding. The Company adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each customer segment (i.e. percentage change in GDP). At each reporting date, the observed historical default rates are updated and changes in the forward-looking estimates are analyzed.

The aging analysis of the Company's receivables from customers is as follows:

Days from Transaction Date of Counterparty	September 30, 2022 (Unaudited)		
	Amount	Collateral (net of haircut)	Counterparty Exposure
1 - 3 days	₱3,474,638	₱441,838,356	₱-
4 - 14 days	-	-	-
15 - 31 days	-	-	-
Over 31 days	417,153	1,469,829	364,804
	<b>₱3,891,791</b>	<b>₱443,308,185</b>	<b>₱364,804</b>

Days from Transaction Date of Counterparty	December 31, 2021 (Audited)		
	Amount	Collateral (net of haircut)	Counterparty Exposure
1 - 3 days	₱26,854	₱118,243	₱-
4 - 14 days	42,644	32,460	852
15 - 31 days	2,709	755,205	-
Over 31 days	980,129	27,013,803	501,300
	<b>₱1,052,336</b>	<b>₱27,919,711</b>	<b>₱502,152</b>

The Securities Regulation Code (SRC) requires broker/dealers to maintain a stock record for each cash and margin account of every customer regardless of the frequency of transactions. The stock record is a record of accountability reflecting all securities for which the Company has custodial responsibility or proprietary ownership. Transactions in the customer accounts cover both money balances and security positions, with the security transaction and related money generally recorded on the settlement date.

On a regular basis, collateral valuations of customers' accounts are analyzed to ensure that these are sufficient to cover the outstanding balances due to the Company.

As at September 30, 2022 and December 31, 2021, receivables from customers amounting to ₱3.9 million and ₱1.1 million respectively, are secured by collateral comprising of equity securities of listed companies with a total market value of ₱680.2 million and ₱42.6 million, respectively (see Note 8).

Receivables from other brokers pertain to funds held by other brokers for the Company's global trading activities. The Company has assessed that ECL on these receivables are insignificant because the counterparties are companies with good credit standing and low risk of defaults. Further, the funds held by other brokers as at the end of the reporting period were subsequently reinvested to various equity and debt securities in other foreign markets. On the other hand, receivables from clearing house are due and collectible after three (3) business days from transaction date. Accordingly, no provision for credit losses on receivables from other brokers and clearing house was recognized in September 30, 2022 and 2021.

#### *Other Financial Assets at Amortized Cost*

It is the Company's policy to measure ECL on other financial assets at amortized cost on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The Company also considers financial assets that are more than 30 days past due to be the latest point at which lifetime ECL should be recognized unless it can demonstrate that this does not represent significant credit risk such as when non-payment arising from administrative oversight rather than resulting from financial difficulty of the borrower.

The Company has assessed that the ECL on other financial assets at amortized cost is insignificant because the transactions with respect to these financial assets are with reputable banks and companies with good credit standing and low risk of defaults. Accordingly, no provision for credit losses on other financial assets at amortized cost was recognized in September 30, 2022 and 2021.

### **Liquidity Risk**

Liquidity risk arises when the Company encounters difficulties in raising adequate funds to meet its financial commitments at a reasonable cost. The Company's objectives in effectively managing its liquidity are: (a) to ensure that adequate funding is available at all times; (b) to meet the commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed at the least possible cost.

The Company monitors its cash flows, particularly the receivables from customers' collections and the funding requirements of operations, to ensure an adequate balance of inflows and outflows. Further, special reserve requirements for the customers of the Company are maintained in the bank (see Note 6).

The table below summarizes the maturity profile of the financial liabilities of the Company based on remaining undiscounted cash flows:

	September 30, 2022 (Unaudited)					Total
	On Demand	1 to 3 Months	3 to 12 Months	1 to 5 Years		
Trade payables	₱187,444,976	₱-	₱-	₱-	₱-	₱187,444,976
Lease liabilities	-	352,350	1,058,275	700,060	-	2,110,685
Other current liabilities*	-	2,322,868	-	-	-	2,322,868
	₱187,444,976	₱2,675,218	₱1,058,275	₱700,060	₱-	₱191,878,529

*Excluding statutory liabilities amounting to ₱1.0 million as at September 30, 2022.*

	December 31, 2021 (Audited)					Total
	On Demand	1 to 3 Months	3 to 12 Months	1 to 5 Years		
Trade payables	₱331,096,290	₱-	₱-	₱-	₱-	₱331,096,290
Lease liabilities	-	359,884	959,356	929,500	-	2,248,740
Other current liabilities*	-	6,492,533	-	-	-	6,492,533
	₱331,096,290	₱6,852,417	₱959,356	₱929,500	₱-	₱339,837,563

*Excluding statutory liabilities amounting to ₱2.4 million as at December 31, 2021.*

The Company is exposed to market risks, primarily those related to foreign currency risk and equity price risk. Management actively monitors these exposures, as follows:

**Foreign Currency Risk.** Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company periodically reviews the trend of the foreign exchange rates to address its exposure in foreign currency risk. The Company's policy is to maintain foreign currency exposure within acceptable limits and within the existing regulatory guidelines. The Company believes that its profile of foreign currency exposure on its assets is within conservative limits for a financial institution engaged in the type of business in which the Company is engaged.

The following table shows the Company's US dollar-denominated monetary financial assets:

	September 30, 2022 (Unaudited)					
	US Dollar	Philippine Peso	HK Dollar	Philippine Peso	Indonesian Rupiah	Philippine Peso
<b>Financial assets:</b>						
Cash in banks	\$2,899,015	₱170,780,991	\$-	₱-	Rp-	₱-
Receivables from other brokers	8,179,076	481,829,359	5,804,277	43,559,361	7,626,575,116	29,743,643
	<b>11,078,091</b>	<b>₱652,610,350</b>	<b>\$5,804,277</b>	<b>₱43,559,361</b>	<b>Rp7,626,575,116</b>	<b>₱29,743,643</b>

	December 31, 2021 (Audited)			
	US Dollar	Philippine Peso	HK Dollar	Philippine Peso
<b>Financial assets:</b>				
Cash in banks	\$6,360	₱322,944	\$-	₱-
Receivables from other brokers	6,330,235	321,411,360	6,694,793	43,583,778
	<b>\$6,336,595</b>	<b>₱321,734,304</b>	<b>\$6,694,793</b>	<b>₱43,583,778</b>

For purposes of restating the outstanding balances of the Company's foreign currency-denominated monetary financial assets as at September 30, 2022, the exchange rates applied were ₱58.91, ₱7.5047, and ₱0.0039 per US\$1, HK\$1, and RP1 respectively. As at December 31, 2021, the exchange rates applied were ₱50.77 and ₱6.51 per US\$1 and HK\$1, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar and HK dollar exchange rates, with all other variables held constant, of the Company's income before tax in September 30, 2022 and 2021. There is no other impact on the Company's equity other than those already affecting profit or loss.

	Increase/Decrease in Exchange Rate			Effect on Income before Tax		
	US Dollar	HK Dollar	Indonesian Rupiah	US Dollar	HK Dollar	Indonesian Rupiah
<b>September 30, 2022</b>	<b>+2.20</b>	<b>+0.25</b>	<b>+0.00006</b>	<b>₱24,336,505</b>	<b>₱1,464,115</b>	<b>₱460,856</b>
	<b>-2.20</b>	<b>-0.25</b>	<b>-0.00006</b>	<b>(24,336,505)</b>	<b>(1,464,115)</b>	<b>(460,856)</b>
September 30, 2021	+0.96	+0.12	-	₱5,907,694	₱840,212	-
	-0.96	-0.12	-	(5,907,694)	(840,212)	-

*Equity Price Risk.* Equity price risk arise when the fair values of quoted equity securities decrease as the result of the adverse changes in the quoted equity prices as affected by both rational and irrational market forces. The Company's equity risk exposure is mainly from its financial assets at FVPL.

The Company's policy is to maintain the risk to an acceptable level. Movement in share price is monitored regularly to determine the impact on its financial position.

### **Capital Management**

The Company's objective in managing capital is to ensure that a stable capital base is maintained in accordance with industry regulations, while maintaining investor, creditor, and market confidence to sustain the future development of the business.

The Company's BOD has the overall responsibility for monitoring capital proportion to risks. The Associated Person designated by the Company monitors compliance with minimum net capital requirements imposed by the PSE and the SEC.

The Company, being a broker/dealer in securities, is regulated by PSE and SEC and subject to the following capital requirements in accordance with the SRC.

### **Required Capitalization for Broker/Dealers**

In compliance with SRC Rule 28 of the 2015 *Implementing Rules and Regulations of Securities Regulation Code*, trading participants, who will be participating in a registered clearing agency, are required to have a minimum unimpaired capital of ₱100.0 million effective November 9, 2015.

Unimpaired paid-up capital pertains to the Company's paid-up capital less any deficit. The unimpaired paid-up capital of the Company amounted to ₱1,911.0 million and ₱550.0 million as at September 30, 2022 and December 31, 2021, respectively.

Details of the Company's common shares at ₱0.10 par value per share are as follows:

	September 30, 2022 (Unaudited)		December 31, 2021 (Audited)	
	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized Capital Stock</b>				
Balance at beginning of year	8,000,000,000	₱800,000,000	800,000,000	₱800,000,000
Effect of stock split	–	–	7,200,000,000	–
Addition	–	–	–	–
Balance	8,000,000,000	₱800,000,000	8,000,000,000	₱800,000,000
<b>Issued and Outstanding</b>				
Balance at beginning of year	5,500,000,000	₱550,000,000	500,000,000	₱500,000,000
Effect of stock split	–	–	4,500,000,000	–
Addition	1,375,000,000	137,500,000	500,000,000	50,000,000
Balance	6,875,000,000	₱687,500,000	5,500,000,000	₱550,000,000

On October 16, 2019, the BOD and stockholders of the Company approved the increase in authorized capital stock from ₱ 200.0 million divided into 2.0 million common shares at ₱ 100 par value per share to ₱ 800.0 million divided into 800.0 million common shares at ₱ 1 par value per share. The amount of cash received from stockholders amounted to ₱300.0 million.

On November 6, 2019, the Company submitted the application for the increase in authorized capital stock to the SEC.

On January 22, 2020, the SEC approved the Company's increase in authorized capital stock. Accordingly, deposit for future stock subscription of ₱300.0 million was applied against the issuance of additional 300.0 million shares at ₱1.0 par value per share from the Company's unissued capital stock. In 2020, the directly attributable costs on the increase in authorized capital stock and issuance of additional shares amounted to ₱4.2 million.

On April 8, 2020, the BOD and stockholders of the Company approved the change in the par value of the authorized capital stock from ₱1 per share to ₱0.10 per share.

On April 14, 2021, the SEC approved the Company's change in par value of its authorized capital stock.

On July 15, 2021, the Company issued additional 500.0 million shares at ₱0.10 par value per share from the Company's unissued capital stock. Stock issuance costs pertaining to documentary stamp tax paid by the Company amounted to ₱0.5 million.

On December 13, 2021, the Company incurred additional stock issuance costs amounting to ₱1.1 million in relation to the application for registration of securities with SEC for its initial public offering.



On April 13, 2022, the Company completed its initial public offering and was listed in the Philippine Stock Exchange (PSE) under the stock symbol CTS. The Company listed 1,375,000,000 common shares at an offer price of ₱1.00 per share. The proceeds from the IPO amounted to ₱1,375,000,000.

#### **Reserve Fund**

The Company shall annually appropriate a certain minimum percentage of its previous year's audited net income and transfer the same to "Appropriated Retained Earnings" in compliance with SRC Rule 49.1 (B). The Company appropriated a reserve fund amounting to ₱2.0 million and ₱4.7 million in 2022 and 2021.

#### **Net Liquid Capital (NLC)**

The Company is required, at all times, to have and maintain an NLC of at least ₱5.0 million or 5% of its Aggregate Indebtedness (AI), whichever is higher.

In computing for NLC, all non-allowable assets/equities and collateralized liabilities will be deducted, and allowable liabilities and equities are added to equity per books. The equity eligible for NLC pertains to the sum of the following:

- a. Equity per books;
- b. Liabilities subordinated to the claims of creditors in conformity with SRC Rule 49.1 and in accordance with a prescribed schedule; and
- c. Deposits for future stock subscription for which an application for increase in capital stock or request for exemption for registration has been presented for filing or has been filed with the SEC.

The equity eligible for NLC shall exclude deferred income tax, revaluation reserves, and minority interest and any outside investment in affiliates and associates.

In computing for NLC, the equity eligible for NLC is adjusted by the following:

- a. Adding unrealized gains (or deducting unrealized losses) in the accounts of the Company;
- b. Deducting fixed assets and assets which cannot be readily converted into cash (less any AI in accordance with SRC Rule 49.1);
- c. Deducting general guarantees and indemnities for loans and indebtedness other than those incurred by the Company, unless otherwise permitted by the SEC; and
- d. Deducting long and short securities differences.

AI shall mean the total money liabilities of a broker/dealer arising in connection with any transaction whatsoever and includes, among others, money borrowed, money payable against securities loaned and securities failed to receive, market value of securities borrowed to the extent to which no equivalent value is paid or credited (other than the market value of margin securities borrowed from customers and margin securities borrowed from non-customers), customers' and non-customers' free credit balances, and credit balances in customers' and non-customers' accounts having short positions in securities, but excluding the items set out in SRC Rule 49.1 (1) (D).

The Company's NLC met the minimum prescribed amounts as shown below:

	<b>September 30, 2022</b> <b>(Unaudited)</b>	December 31, 2021 (Audited)
<b>NLC:</b>		
Equity eligible for NLC	<b>₱2,000,958,168</b>	₱580,760,857
Less ineligible assets	<b>46,093,436</b>	44,170,660
	<b>1,954,864,732</b>	536,590,197
<b>Required NLC:</b>		
Higher of:		
5% of AI	<b>8,448,675</b>	10,875,773
Minimum amount	<b>5,000,000</b>	5,000,000
	<b>8,448,675</b>	10,875,773
<b>Net risk-based capital excess</b>	<b>₱1,946,416,057</b>	₱525,714,424

#### **Ratio of AI to NLC**

The Company shall not permit its AI to all other persons to exceed 2,000% of its NLC.

The Company's ratio of AI to NLC is 9% and 41% as at September 30, 2022 and December 31, 2021, respectively.

#### **RBCA Requirement/Ratio**

The RBCA requirement/ratio refers to the minimum level of capital to be maintained by firms which are licensed or securing a broker/dealer license, taking into consideration the firm size, complexity, and business risk. Such risks that are considered in determining the capital requirement include, among others, operational, position, counterparty, large exposure, underwriting, and margin financing risks. The RBCA ratio should be greater than or equal to 1:1.

The RBCA ratio is the ratio linking the NLC of the Company to its Total Risk Capital Requirement (TRCR), calculated as the Company's NLC divided by its TRCR. The TRCR is the sum of:

- a. Operational Risk Requirement (ORR);
- b. Credit Risk Requirement which include requirements for Counterparty Risk, Settlement Risk, Large Exposure Risk, and Margin Lending/Financing Risk; and
- c. Position or Market Risk Requirement.

	<b>September 30, 2022</b> <b>(Unaudited)</b>	December 31, 2021 (Audited)
<b>NLC</b>	<b>₱1,954,864,732</b>	₱536,590,197
<b>TRCR:</b>		
Position risk	<b>63,126,916</b>	1,976,552
Large exposure risk	<b>26,330,733</b>	–
Operational risk	<b>24,792,836</b>	20,232,681
Credit risk	–	–
<b>Total risk capital requirement</b>	<b>114,250,485</b>	22,209,233
<b>RBCA ratio</b>	<b>1,711%</b>	2,416%

As at September 30, 2022 and December 31, 2021, the Company is compliant with the required RBCA ratio.

#### **Ratio of Core Equity to ORR**

The Company's core equity shall be at all times greater than its ORR.

Core equity refers to the sum of paid-up common stock, common stock dividends distributable, additional paid-in capital, surplus reserves excluding revaluation reserves or appraisal capital, and opening retained earnings adjusted for all current year movements. Core equity shall exclude treasury shares and unbooked valuation reserves and other capital adjustments (such as unrealized gain in value of financial assets at FVOCI).

The Company's ratio of core equity to ORR is as follows:

	<b>September 30, 2022 (Unaudited)</b>	December 31, 2021 (Audited)
Capital stock	<b>₱687,500,000</b>	₱550,000,000
Beginning retained earnings	<b>33,780,545</b>	15,249,292
Additional Paid-in Capital	<b>1,223,556,878</b>	–
Core equity	<b>1,944,837,423</b>	565,249,292
ORR	<b>24,792,836</b>	20,232,681
Ratio of Core Equity to ORR	<b>7,844%</b>	2,794%

## 5. Fair Value Measurement

The following table presents the carrying amount and fair value of the Company's assets measured at fair value and for which fair value is disclosed, and the corresponding fair value hierarchy:

	Note	September 30, 2022 (Unaudited)			
		Carrying Amount	Fair Value		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset measured at fair value -					
Financial assets at FVPL	7	₱17,015,560	₱17,015,560	₱–	₱–
Assets for which fair value is disclosed:					
Investment securities at amortized cost	10	947,211,844	947,211,844	–	–
Investment property	13	9,803,076	–	–	35,830,800
		<b>₱974,030,480</b>	<b>₱964,227,404</b>	<b>₱–</b>	<b>₱35,830,800</b>
		December 31, 2021 (Audited)			
		Carrying Amount	Fair Value		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset measured at fair value -					
Financial assets at FVPL	7	₱2,061	₱2,061	₱–	₱–
Assets for which fair value is disclosed:					
Investment securities at amortized cost	10	50,000,000	50,000,000	–	–
Investment property	13	10,285,195	–	–	35,830,800
		<b>₱60,287,256</b>	<b>₱50,002,061</b>	<b>₱–</b>	<b>₱35,830,800</b>

The Company used the following techniques to determine fair value measurements:

**Financial Assets at FVPL.** The Company's financial assets at FVPL as at September 30, 2022 and December 31, 2021 are carried at fair values based on sources classified under the Level 1 category. The fair values of financial assets at FVPL are based on prevailing quoted market prices, which are usually the closing prices from active markets as at reporting date.

*Investment Property.* Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment property and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. The fair valuation is classified under Level 3 category.

The significant unobservable inputs used in the fair value measurement of the Company's investment property are the estimated net price per square meter and various factors such as size, location, and utility, among others. Significant increases (decreases) in the estimated net price per square meter in isolation would result in a significantly higher (lower) fair value measurement. Further, choosing comparables with different inputs would result in a significantly different fair value measurement.

The Company has determined that the current use of its investment property as at September 30, 2022 and December 31, 2021 is its highest and best use.

*Investment Securities at Amortized Cost.* The fair value of the investments is based on the quoted market price in an active market as at September 30, 2022 and December 31, 2021.

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements in 2022 and 2021.

The table below presents the financial assets and liabilities whose carrying amount approximates their fair value because of their short-term nature or their fair value cannot be reliably determined:

	<b>September 30, 2022</b> <b>(Unaudited)</b>	December 31, 2021 (Audited)
Financial assets at amortized cost:		
Cash	<b>₱661,049,394</b>	₱444,299,376
Trade and other receivables	<b>571,034,649</b>	406,664,329
Refundable deposits*	<b>10,902,339</b>	10,277,093
	<b>₱1,242,986,382</b>	₱861,240,798

\*Included under "Other noncurrent assets" account in the statements of financial position.

	<b>September 30, 2022</b> <b>(Unaudited)</b>	December 31, 2021 (Audited)
Other financial liabilities at amortized cost:		
Trade payables	<b>₱187,444,976</b>	<b>₱331,096,290</b>
Other current liabilities*	<b>2,322,868</b>	<b>6,492,533</b>
	<b>₱189,767,844</b>	<b>₱337,588,823</b>

\*Excluding statutory liabilities aggregating to ₱1.0 million and ₱2.4 million as at September 30, 2022 and December 31, 2021, respectively.

*Current Financial Assets and Liabilities.* The carrying amounts of cash, trade and other receivables, trade payables, and other current liabilities (excluding statutory liabilities) approximate their fair values due to their short-term nature.

*Refundable Deposits.* The carrying amount of refundable deposits approximates fair value. The management believes that the effect of discounting the future receipts from these financial instruments using the prevailing market rates is not significant.

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## 6. Cash and cash equivalents

This account consists of:

	<b>September 30, 2022</b> <b>(Unaudited)</b>	December 31, 2021 <b>(Audited)</b>
Cash on hand	<b>₱12,000</b>	₱12,000
Cash in banks	<b>661,037,394</b>	444,287,376
	<b>₱661,049,394</b>	<b>₱444,299,376</b>

Cash in banks earn interest at prevailing bank deposit rates. Short-term placements are made for varying periods of up to three months depending on the Company's immediate cash requirements and earn interest at the respective short-term placement rates ranging from 3.275% to 4.0% per annum in the nine months period ended September 30, 2022.

Interest income were derived from:

	Note	<b>September 30, 2022</b> <b>(Unaudited)</b>	September 30, 2021 <b>(Unaudited)</b>
Cash in banks		<b>₱3,790,459</b>	₱889,191
Receivables from other brokers	8	<b>4,629,955</b>	96,955
Investment securities at amortized cost	10	<b>10,137,219</b>	1,312,500
		<b>₱18,557,633</b>	<b>₱2,298,646</b>

In compliance with SRC Rule 49.2-1 covering customer protection and custody of securities, the Company maintains a special reserve bank account for the exclusive benefit of its customers amounting to ₱639.9 million and ₱432.2 million as at September 30, 2022 and December 31, 2021, respectively. The Company's reserve requirement is determined weekly based on the SEC's prescribed computation. As at September 30, 2022 and December 31, 2021, the Company's reserve accounts are adequate to cover its reserve requirements.

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## 7. Financial Assets at FVPL

This account consists of:

	<b>September 30, 2022</b> <b>(Unaudited)</b>	December 31, 2021 <b>(Audited)</b>
Listed shares:		
Local	<b>₱14,713,928</b>	₱2,061
Global	<b>2,301,632</b>	-
	<b>₱17,015,560</b>	<b>₱2,061</b>

The Company's financial assets at FVPL as at September 30, 2022 and December 31, 2021 are carried at fair values based on sources classified under the Level 1 category. The fair values of financial assets at FVPL are based on prevailing quoted market prices or bidding dealer price quotations from active market as at the reporting date (see Note 5).

Dividend income earned from financial assets at FVPL amounted to ₱1.3 million and ₱1.9 million as of September 30, 2022 and 2021, respectively.

Net trading gains on financial assets at FVPL consist of the following:

	September 30, 2022 (Unaudited)	September 30, 2021 (Audited)
Realized fair value gains from:		
Local trading	P19,676,197	P52,784,792
Global trading	8,747,936	39,552,405
Unrealized gains (losses) on fair value changes on stocks held from:		
Local trading	18,635	1,101,288
Global trading	(255,167)	44,871
	<b>P28,187,601</b>	<b>P93,483,356</b>

## 8. Trade and Other Receivables

This account consists of:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Trade receivables:		
Other brokers	P555,132,361	P364,995,138
Clearing house	–	40,881,235
Customers	3,891,791	1,052,336
Other receivables:		
Interest receivables	12,375,301	237,772
	<b>571,399,453</b>	<b>407,166,481</b>
Less allowance for credit losses	364,804	502,152
	<b>P571,034,649</b>	<b>P406,664,329</b>

Receivables from other brokers pertain to the funds deposited with other brokers as at September 30, 2022 and December 31, 2021 in order for the Company to trade in other foreign markets. Interest income earned from receivables from other brokers amounted to P4.6 million and P0.1 million as of September 30, 2022 and 2021, respectively.

Receivables from clearing house are due and collectible after three business days from the transaction date. Accordingly, the balances as at December 31, 2021 was fully collected in January 2022.

Receivables from customers consist of amounts due within one (1) year from the reporting date as follows:

	September 30, 2022 (Unaudited)		December 31, 2021 (Audited)	
	Money Balances	Security Valuation - Long	Money Balances	Security Valuation - Long
<b>Cash and fully secured accounts:</b>				
<b>More than 250%</b>	P3,525,993	P680,149,712	P481,884	P42,458,796
<b>Between 200% and 250%</b>	–	–	–	–
<b>Between 150% and 200%</b>	–	–	–	–
<b>Between 100% and 150%</b>	–	–	2,610	2,980
<b>Partially secured accounts</b>	6,798	1,528	248,650	103,407
<b>Unsecured accounts</b>	359,000	–	319,192	–
	<b>3,891,791</b>	<b>680,151,240</b>	<b>1,052,336</b>	<b>42,565,183</b>
Less allowance for credit losses	364,804	–	502,152	–
	<b>P3,526,987</b>	<b>P680,151,240</b>	<b>P550,184</b>	<b>P42,565,183</b>

Collaterals related to receivables from customers pertain to listed equity securities amounting to ₱680.2 million and ₱42.6 million as at September 30, 2022 and December 31, 2021, respectively. The fair values of these securities are based on prevailing quoted market prices, which are usually the closing prices from active markets as at the reporting date.

Provision for credit losses pertains to specific provisions on past due receivables. The movements in the allowance for credit losses are as follows:

	<b>September 30, 2022</b>	December 31, 2021
	<b>(Unaudited)</b>	(Audited)
Balance at beginning of year	<b>₱502,152</b>	₱288,685
Provision for credit losses	<b>(137,348)</b>	213,467
Balance at end of year	<b>₱364,804</b>	₱502,152

Interest receivables pertain to the Company's accrued interest income on its investments in short-term placements and peso-denominated government debt securities (see Notes 6 and 10, respectively).

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## 9. Other Current Assets

This account consists of:

	<b>September 30, 2022</b>	December 31, 2021
	<b>(Unaudited)</b>	(Audited)
Excess tax credits	<b>₱7,933,931</b>	₱7,912,057
Prepayments	<b>1,678,177</b>	1,175,617
Advances to officers and employees	<b>1,652,012</b>	502,345
Input VAT	<b>445,084</b>	–
Other receivables	<b>345,878</b>	92,637
	<b>₱12,055,082</b>	₱9,682,656

Prepayments which are related to rentals, subscriptions, insurance, and taxes and licenses, are amortized over the period covered by the payment.

Advances to officers and employees pertain to cash advances subject to liquidation within 30 days after the transaction occurred.

Other receivables are noninterest-bearing and generally settled within one (1) year.

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## 10. Investment Securities at Amortized Cost

This account consists of:

	<b>September 30, 2022</b>	December 31, 2021
	<b>(Unaudited)</b>	(Audited)
Current:		
Government debt securities	<b>₱50,000,000</b>	₱–
Non-current:		
Government debt securities	<b>897,211,844</b>	50,000,000
	<b>₱947,211,844</b>	₱50,000,000

The peso-denominated government debt securities bear nominal annual interest rates of 4.375% to 7.25% per annum during the nine-month period in 2022 and 4.375% per annum during the twelve-month period in 2021, with an EIR of 4.375% to 6.68% during the nine-month period in 2022 and 4.375% during the twelve-month period in 2021.

The Company's investments in government debt securities are considered of low credit risk since these are rated as Baa2 by Moody's Investors Service, Inc. and BBB- by Fitch Ratings, Inc., respectively. These credit ratings are still considered as 'Investment Grade.'

Interest income earned from these investments amounted to ₱10.1 million and ₱1.3 million as at September 30, 2022 and 2021, respectively.

## 11. Intangible Assets

This account consists of:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Software and licenses	₱1,762,426	₱2,061,165
Intangible assets - under development	618,000	-
Exchange trading right	475,000	475,000
	<b>₱2,855,426</b>	<b>₱2,536,165</b>

### Software and Licenses

The balance and movements of software and licenses as at and for the periods ended September 30, 2022 and December 31, 2021 are as follows:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
<b>Cost</b>		
Balance at beginning of year	₱4,140,327	₱3,724,434
Additions	-	415,893
Balance at end of year	<b>4,140,327</b>	4,140,327
<b>Accumulated Amortization</b>		
Balance at beginning of year	2,079,162	1,704,751
Amortization	298,739	374,411
Balance at end of year	<b>2,377,901</b>	2,079,162
<b>Carrying Amount</b>	<b>₱1,762,426</b>	<b>₱2,061,165</b>

### Exchange Trading Right

Under the PSE rules, all exchange trading rights are pledged at its full value to PSE to secure the payment of all debts due to other members of the exchange arising out of, or in connection with, the present or future members' contracts.

Republic Act (RA) No. 8799 entitled SRC to prescribe the conversion of PSE from a non-stock corporation into a stock corporation (demutualization) effective August 8, 2001, pursuant to a conversion plan approved by the SEC.

As a result of the conversion plan and on the basis of the relative fair values of the PSE shares and the exchange trading right as of the time of the demutualization, the Company's membership in the PSE, originally amounting to ₱1.0 million was bifurcated equally into (a) investment in PSE shares (classified



as financial assets at FVPL) and (b) exchange trading right. The investment in PSE shares was sold in 2020.

As at September 30, 2022 and December 31, 2021, the carrying amount of the exchange trading right is ₱475,000.

As at September 30, 2022 and December 31, 2021, the latest transacted price of the exchange trading right, as provided by the PSE, is ₱9.0 million.

No impairment loss was recognized on intangible assets as at September 30, 2022 and 2021.

Details of depreciation and amortization are:

	Note	September 30, 2022 (Unaudited)	September 30, 2021 (Unaudited)
Property and equipment	12	₱2,477,680	₱2,554,769
Investment property	13	482,119	482,119
Intangible assets		298,739	274,830
		<b>₱3,258,538</b>	<b>₱3,311,718</b>

## 12. Property and Equipment

The balances and movements of this account as at September 30, 2022 and December 31, 2021 are as follows:

	Note	September 30, 2022 (Unaudited)			Total
		Office Condominium Units and Improvements	Leasehold Improvements	Furniture, Fixtures, and Office Equipment	
<b>Cost</b>					
Balances at beginning of year		₱21,900,275	₱5,010,179	₱21,853,774	₱48,764,228
Additions		876,532	7,286	189,804	1,073,622
Derecognition		–	–	(37,009)	(37,009)
Balances at end of year		<b>22,776,807</b>	<b>5,017,465</b>	<b>22,006,569</b>	<b>49,800,841</b>
<b>Accumulated Depreciation and Amortization</b>					
Balances at beginning of year		14,288,176	2,147,354	21,192,802	37,628,332
Depreciation and amortization	11	1,738,804	374,479	364,397	2,477,680
Derecognition		–	–	(37,009)	(37,009)
Balances at end of year		<b>16,026,980</b>	<b>2,521,833</b>	<b>21,520,190</b>	<b>40,069,003</b>
<b>Carrying Amounts</b>		<b>₱6,749,827</b>	<b>₱2,495,632</b>	<b>₱486,379</b>	<b>₱9,731,838</b>

	December 31, 2021 (Audited)				Total
	Note	Office Condominium Units and Improvements	Leasehold Improvements	Furniture, Fixtures, and Office Equipment	
<b>Cost</b>					
Balances at beginning of year		₱19,682,472	₱4,995,930	₱22,244,358	₱46,922,760
Additions		2,217,803	14,249	356,737	2,588,789
Derecognition		–	–	(747,321)	(747,321)
Balances at end of year		21,900,275	5,010,179	21,853,774	48,764,228
<b>Accumulated Depreciation and Amortization</b>					
Balances at beginning of year		11,988,955	1,641,069	21,347,553	34,977,577
Depreciation and amortization	11	2,299,221	506,285	592,570	3,398,076
Derecognition		–	–	(747,321)	(747,321)
Balances at end of year		14,288,176	2,147,354	21,192,802	37,628,332
<b>Carrying Amounts</b>		<b>₱7,612,099</b>	<b>₱2,862,825</b>	<b>₱660,972</b>	<b>₱11,135,896</b>

Additions to ROU assets (included as part of “Office condominium units and improvements” in property and equipment) amounting to ₱0.9 million and ₱2.2 million as at September 30, 2022 and December 31 2021, respectively, are considered as noncash financial information in the statements of cash flows (see Note 20).

As at September 30, 2022 and December 31, 2021, cost of fully-depreciated assets still in use amounted to ₱28.4 million and ₱27.0 million, respectively.

### 13. Investment Property

The balances and movements of this account are as follows:

	Note	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
<b>Cost</b>			
Balances at beginning and end of year		₱12,856,487	₱12,856,487
<b>Accumulated Depreciation</b>			
Balances at beginning of year		2,571,292	1,928,469
Depreciation	11	482,119	642,823
Balances at end of year		3,053,411	2,571,292
<b>Carrying Amount</b>		<b>₱9,803,076</b>	<b>₱10,285,195</b>

Investment property pertains to the condominium unit which is currently held by the Company for undetermined use.

The Company did not earn any rental income nor incurred any direct costs related to its investment property as of September 30, 2022 and 2021.

The fair value of investment property amounted to ₱35.8 million as at September 30, 2022 and December 31, 2021. The fair value was determined using the Sales Comparison Approach. This approach compares sales of similar or substitute properties and related market data to establish an estimated value. The fair value of investment property is categorized under Level 3 (significant unobservable inputs) (see Note 5). As at September 30, 2022 and December 31, 2021, the investment property is not pledged as collateral.

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#### 14. Other Noncurrent Assets

This account consists of:

	Note	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Refundable deposits from:			
Clearing and Trade Guarantee Fund (CTGF) contributions		<b>₱10,819,114</b>	₱10,193,868
Rental and utility	20	<b>83,225</b>	83,225
Others		<b>267,226</b>	253,655
		<b>₱11,169,565</b>	₱10,530,748

Refundable deposit from CTGF pertains to the monthly contributions paid by the Company, as a Clearing Member, to the CTGF maintained by the Securities Clearing Corporation of the Philippines (SCCP). The monthly contribution is equivalent to 1/500 of 1% applied to the Clearing Member's total monthly turnover value less block sales and cross transactions of the same flag. The deposit is refundable upon the cessation of the business and/or termination of the membership with the SCCP, provided that all liabilities owing to the SCCP at the time of termination, whether actual or contingent, shall have been satisfied or paid in full.

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#### 15. Trade Payables

This account consists of:

	September 30, 2022 (Unaudited)		December 31, 2021 (Audited)	
	Money Balance	Security Valuation - Long	Money Balance	Security Valuation - Long
Payable to customers:				
With money balance	<b>₱174,216,575</b>	<b>₱4,876,633,254</b>	₱329,083,693	₱8,102,165,172
Without money balance	–	<b>3,344,308,399</b>	–	2,307,878,577
	<b>174,216,575</b>	<b>8,220,941,653</b>	329,083,693	10,410,043,749
Dividends payable to customers	<b>1,331,027</b>	–	1,331,028	–
Others	<b>11,897,374</b>	–	681,569	–
	<b>₱187,444,976</b>	<b>₱8,220,941,653</b>	₱331,096,290	₱10,410,043,749

Payable to customers pertains to segregated bank balances received and held for customers in the course of its regulated trading activities. These are noninterest-bearing and payable on demand.

## 16. Other Current Liabilities

This account consists of:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Subscriptions payable	₱949,200	₱–
Due to the BIR	651,794	2,186,306
Trading fee payable	611,110	339,893
Accruals for:		
Others	558,996	411,765
Commissions	–	4,436,579
Professional fees	–	416,978
Social Security System, Pag-IBIG, and PhilHealth payable	387,908	244,076
Accounts payable	203,562	887,318
	<b>₱3,362,570</b>	<b>₱8,922,915</b>

Due to the BIR comprises output tax, withholding tax, and percentage tax payable to the Philippine BIR and are generally settled in the succeeding month from transaction date.

Accounts payable are noninterest-bearing and generally settled within one year.

## 17. Related Party Transactions

The Company has transactions with its related parties in the ordinary course of business as follows:

	Nature of Transactions	Amount of Transactions		Outstanding Balance		Terms and Conditions
		September 30, 2022 (Unaudited)	September 30, 2021 (Unaudited)	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)	
<b>Trade Receivables</b>						
Affiliate with common officers and stockholders	Commission income	₱1,944,409	₱618,658	₱43,559,361	₱43,583,778	3-day; noninterest-bearing; secured; settled in cash
<b>Trade Payables</b>						
Affiliate with common officers and stockholders	Commission expense	₱2,997,550	₱5,076,265	₱1,471,246	₱115,736,798	3-day; noninterest-bearing; secured; no guarantee; settled in cash
Key management personnel	Commission income	63,884	127,740	29,495,839	28,715,757	settled in cash
				<b>₱30,967,085</b>	<b>₱144,452,555</b>	
<b>Personnel Costs</b>						
Key management personnel	Short-term employee benefits	₱4,081,187	₱4,646,772	₱–	₱–	

## 18. Personnel Costs

This account consists of:

	September 30, 2022 (Unaudited)	September 30, 2021 (Unaudited)
Salaries and wages	₱18,722,311	₱17,946,906
Other benefits	6,386,642	11,395,054
	<b>₱25,108,953</b>	<b>₱29,341,960</b>

Personnel costs were distributed as follows:

	September 30, 2022 (Unaudited)	September 30, 2021 (Unaudited)
Cost of services	P17,576,267	P19,222,077
Operating expenses	7,532,686	10,119,883
	<b>P25,108,953</b>	<b>P29,341,960</b>

## 19. Retirement Benefits

The Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of the employees. The funded benefit obligation under the defined benefit retirement plan is determined using the projected unit credit method. The benefits to be received by the employees under the defined benefit retirement plan shall not be less than the minimum mandated benefit under RA No. 7641, *The Retirement Pay Law*. There were no termination, curtailment, or settlement as of September 30, 2022 and December 31, 2021.

Under the existing regulatory framework, RA 7641, *The Retirement Pay Law*, requires a 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 under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

## 20. Leases

The Company, as lessee, has lease agreements for its office spaces with lease terms ranging from two (2) to three (3) years as at September 30, 2022 and December 31, 2021, respectively. The leases are renewable upon mutual agreement of the parties. Refundable deposits on these lease agreements amounted to P0.1 million as at September 30, 2022 and December 31, 2021, respectively (see Note 14).

The balance and movements of the ROU assets (included as component of property and equipment) are as follows:

	Note	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
<b>Cost</b>			
Balance at beginning of year		P5,214,257	P3,024,453
Additions	12	862,219	2,189,804
Balance at end of year		<b>6,076,476</b>	5,214,257
<b>Accumulated Depreciation</b>			
Balance at beginning of year		3,017,931	1,655,980
Depreciation		1,034,132	1,361,951
Balance at end of year		<b>4,052,063</b>	3,017,931
<b>Carrying Amount</b>		<b>P2,024,413</b>	<b>P2,196,326</b>

The balance and movements of lease liabilities are as follows:

	Note	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Balance at beginning of year		₱2,208,628	₱1,414,475
Additions		862,219	2,189,804
Interest expense		39,208	34,238
Lease payments		(1,077,576)	(1,429,889)
Balance at end of year		₱2,032,479	₱2,208,628

Lease liabilities are presented in the statement of financial position as follows:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Current	₱1,477,920	₱1,287,355
Noncurrent	554,559	921,273
	₱2,032,479	₱2,208,628

The Company recognized the following lease-related expenses:

	Note	September 30, 2022 (Unaudited)	September 30, 2021 (Unaudited)
Depreciation		₱1,034,132	₱1,018,995
Interest expense on lease liabilities		39,208	28,014
		₱1,073,340	₱1,047,009

Future minimum lease commitments under non-cancellable leases as at September 30, 2022 are as follows:

Within one (1) year	₱1,410,625
After one (1) year but no more than two (2) years	700,060
	₱2,110,685

## 21. Income Taxes

The components of income taxes as reported in the statements of comprehensive income are as follows:

	September 30, 2022 (Unaudited)	September 30, 2021 (Unaudited)
<b>Reported in Profit or Loss</b>		
Current tax expense	₱-	₱2,589,117
Deferred tax expense	14,248,387	6,682,823
	₱14,248,387	₱9,271,940

The components of the Company's net deferred tax assets are as follows:

	September 30, 2022 (Unaudited)	December 31, 2021 (Audited)
Deferred tax assets:		
Net operating loss carryover	P8,998,000	P-
Net retirement benefit liability	4,935,044	4,935,044
Lease liabilities	508,120	552,157
Allowance for credit losses	91,201	125,538
Excess of cost over fair value of financial assets at FVPL	91,329	32,196
	<b>14,623,694</b>	5,644,935
Deferred tax liabilities:		
Unrealized foreign exchange gain	25,210,768	1,942,765
ROU asset	506,103	549,082
Others	135,522	133,400
	<b>25,852,393</b>	2,625,247
	<b>(P11,228,699)</b>	P3,019,688

The reconciliation between the income tax expense based on statutory income tax rate and effective income tax rate is as follows:

	September 30, 2022 (Unaudited)	September 30, 2021 (Audited)
Income tax expense at statutory tax rate	P21,280,235	P9,096,776
Tax effects of:		
Stock issuance costs	(3,485,781)	(125,000)
Interest income already subjected to final tax	(3,481,920)	(550,423)
Dividend income exempt from tax	(214,784)	(405,426)
Nondeductible expenses	153,230	295
Others	(2,593)	(61,891)
Effect of change in tax rate	-	1,317,609
Income tax at effective tax rate	<b>P14,248,387</b>	P9,271,940

On March 26, 2021, RA No. 11534 or the Corporate Recovery and Tax Incentive for Enterprises (CREATE) Act was signed into law by the President of the Philippines. Under the CREATE law, the Company's Regular Corporate Income Tax (RCIT) is subjected to 25% instead of 30% income tax rate. In addition, the minimum corporate income tax (MCIT) is subjected to 1% instead of 2% of gross income for a period of three (3) years.

## 22. Earnings per Share

Basic and diluted EPS are computed as follows:

	September 30, 2022 (Unaudited)	September 30, 2021 (Audited)
Net income attributable to common stockholders of the Company	P70,872,551	P27,115,162
Divided by weighted average number of outstanding common shares	6,130,208,333	5,138,889,444
Per share amounts: Basic and diluted EPS	<b>P0.0116</b>	P0.0053

Diluted EPS equals the basic EPS as the Company does not have any dilutive potential common shares at the end of each of the periods presented.

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## 23. Segment Reporting

### **Business Segments**

The Company's business segments consist of local and global trading.

### **Segment Assets and Liabilities**

Segment assets include all operating assets used by a segment and consist primarily of operating cash, receivables, financial assets at FVPL, investment securities at amortized cost, property and equipment, investment property, and intangible assets, net of allowances, accumulated depreciation and amortization, and impairment, and other current and noncurrent assets. Segment liabilities include all operating liabilities and consist primarily of trade payables and other current and noncurrent liabilities.

### **Major Customer**

The Company does not have a single external customer from which sales revenue generated amounted to 10% or more of the total revenues of the Company.



Financial information about reportable segments are as follows:

	September 30, 2022 (Unaudited)		
	Local Trading	Global Trading	Total
<b>REVENUES</b>			
Trading gains on financial assets at FVPL - net	₱19,694,832	₱8,492,768	₱28,187,600
Commissions	10,289,109	–	10,289,109
Interests	13,927,678	4,629,955	18,557,633
Dividends	859,138	483,514	1,342,652
<b>SEGMENT REVENUES</b>	<b>44,770,757</b>	<b>13,606,237</b>	<b>58,376,994</b>
<b>COST OF SERVICES</b>	<b>(25,817,067)</b>	<b>(20,972,938)</b>	<b>(46,790,005)</b>
<b>GROSS PROFIT</b>	<b>18,953,690</b>	<b>(7,366,701)</b>	<b>11,586,989</b>
<b>OPERATING EXPENSES</b>	<b>(16,419,966)</b>	<b>(3,265,813)</b>	<b>(19,685,779)</b>
<b>OTHER INCOME (EXPENSES)</b>	<b>5,371,239</b>	<b>87,848,489</b>	<b>93,219,728</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>7,904,963</b>	<b>77,215,975</b>	<b>85,120,938</b>
<b>INCOME TAX BENEFIT (EXPENSE)</b>	<b>3,139,821</b>	<b>(17,388,208)</b>	<b>(14,248,387)</b>
<b>NET INCOME</b>	<b>₱11,044,784</b>	<b>₱59,827,767</b>	<b>₱70,872,551</b>
<b>SEGMENT ASSETS</b>	<b>₱1,684,492,439</b>	<b>₱557,433,995</b>	<b>₱2,241,926,434</b>
<b>SEGMENT LIABILITIES</b>	<b>₱223,808,898</b>	<b>₱–</b>	<b>₱223,808,898</b>
<b>CAPITAL EXPENDITURES -</b>			
Fixed assets	₱211,403	₱–	₱211,403
<b>CASH FLOWS ARISING FROM:</b>			
Operating activities	(₱135,666,119)	(₱114,755,810)	(₱250,421,929)
Investing activities	(898,041,247)	–	(898,041,247)
Financing activities	1,070,530,413	289,448,889	1,359,979,302
	December 31, 2021 (Audited)		
	Local Trading	Global Trading	Total
<b>REVENUES</b>			
Trading gains on financial assets at FVPL - net	₱68,681,727	₱40,709,268	₱109,390,995
Commissions	15,593,189	–	15,593,189
Interests	2,902,855	115,307	3,018,162
Dividends	2,342,852	247,903	2,590,755
<b>SEGMENT REVENUES</b>	<b>89,520,623</b>	<b>41,072,478</b>	<b>130,593,101</b>
<b>COST OF SERVICES</b>	<b>(46,938,806)</b>	<b>(45,469,664)</b>	<b>(92,408,470)</b>
<b>GROSS PROFIT (LOSS)</b>	<b>42,581,817</b>	<b>(4,397,186)</b>	<b>₱38,184,631</b>
<b>OPERATING EXPENSES</b>	<b>(27,137,827)</b>	<b>(4,800,515)</b>	<b>(31,938,342)</b>
<b>OTHER INCOME (EXPENSES)</b>	<b>(196,115)</b>	<b>20,256,314</b>	<b>20,060,199</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>15,247,875</b>	<b>11,058,613</b>	<b>26,306,488</b>
<b>INCOME TAX EXPENSE</b>	<b>(3,092,501)</b>	<b>(3,069,117)</b>	<b>(6,161,618)</b>
<b>NET INCOME</b>	<b>₱12,155,374</b>	<b>₱7,989,496</b>	<b>₱20,144,870</b>
<b>SEGMENT ASSETS</b>	<b>₱583,160,976</b>	<b>₱364,995,138</b>	<b>₱948,156,114</b>
<b>SEGMENT LIABILITIES</b>	<b>₱361,968,007</b>	<b>₱–</b>	<b>₱361,968,007</b>
<b>CAPITAL EXPENDITURES -</b>			
Fixed assets	₱814,878	₱–	₱814,878
<b>CASH FLOWS ARISING FROM:</b>			
Operating activities	₱18,733,090	(₱43,614,354)	(₱24,881,264)
Investing activities	(814,878)	–	(814,878)
Financing activities	46,956,494	–	46,956,494

**SCHEDULE I**

**CTS GLOBAL EQUITY GROUP, INC.  
SUPPLEMENTARY SCHEDULE OF  
FINANCIAL SOUNDNESS INDICATORS UNDER REVISED SRC RULE 68**

	<b>September 30, 2022</b>	September 30, 2021
<b>Current/liquidity ratio</b>	6.82	3.17
Current assets	₱1,311,154,685	₱769,202,121
Current liabilities	192,285,466	242,287,754
<b>Solvency ratio</b>	0.33	0.12
After-tax income (loss) before depreciation	₱74,131,089	₱30,426,880
Total liabilities	223,808,898	262,368,908
<b>Debt-to-equity ratio</b>	0.11	0.44
Total liabilities	₱223,808,898	₱262,368,908
Total equity	2,018,117,536	594,400,127
<b>Asset-to-equity ratio</b>	1.11	1.44
Total assets	₱2,241,926,434	₱856,769,035
Total equity	2,018,117,536	594,400,127
<b>Interest rate coverage ratio</b>	771.29	52.43
Income (loss) before interest and taxes	₱85,231,443	₱37,094,610
Interest expense	110,505	707,508
<b>Return on Equity</b>	0.04	0.05
After-tax income (loss)	₱70,872,551	₱27,115,162
Total equity	2,018,117,536	594,400,127
<b>Return on assets</b>	0.03	0.03
After-tax income (loss)	₱70,872,551	₱27,115,162
Total assets	2,241,926,434	856,769,035
<b>Other relevant ratios</b>		
RBCA ratio	<b>1,711%</b>	1,302%
Ratio of AI to NLC	<b>9%</b>	38%
Ratio of Core Equity to ORR	<b>7,844%</b>	2,794%