METROCARE HEALTH SYSTEMS, INCORPORATED

FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

AND

REPORT OF INDEPENDENT AUDITORS

Philippine Pesos

ONG, NOCEJA & ASSOCIATES
Certified Public Accountants

METROCARE HEALTH SYSTEMS INCORPORATED

25 YEARS since 1995

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **METROCARE HEALTH SYSTEMS, INCORPORATED** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

ONG, NOCEJA & ASSOCIATES, C. P. A., the independent auditor appointed by the Stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Chairman of the Board : VIRGIL B. PRIETO

President : ELMER Z. ACANCE

Treasurer : VICTORIA P. FLORES

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
REVENUE DISTRICT OFFICE NO.051
PASAY CITY
RECEIVED
APR 17 2023
INITIAL: DATE:

Signed this 11th day of April, 2023

Main Operating Office:
Gatchalian Industrial Estate, Banay-Banay,
Cabuyao City, Laguna, 4025 Philippines
(632) 8519 4427
contactus@metrocarehealth.com

Corporate Office:
147 Williams St., Pasay City
1300 Philippines
(632) 8550 1004 to 09
www.metrocarehealth.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
METROCARE HEALTH SYSTEMS, INCORPORATED
147 Williams St., Barangay 13
Zone 14, Pasay City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of METROCARE HEALTH SYSTEMS, INCORPORATED (the Company), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulation Nos. 15-2010 and 34-2020

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under said Revenue Regulations in Note 29 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of METROCARE HEALTH SYSTEMS, INCORPORATED. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

ONG, NOCEJA & ASSOCIATES

BY: LAGRIMAS N. ONG
PARTNER
CPA Cert. No. 38847
Tax Identification No. 153-104-203
PTR 3199590, January 4, 2023 @ Parañaque City
FIRM's PRC/BOA Cert. of Registration No. 9308, Valid until August 6, 2024
SEC Group C Accreditation
Partner - Accreditation No. 38847-SEC Valid for Audit Period 2020 - 2024
Firm – 9308-SEC Valid for Audit Period 2020 - 2024
IC Group C Accreditation
Partner - Accreditation No. 38847-IC Valid for Audit 2020 - 2024
Firm – 9308-IC Valid for Audit Period 2020 - 2024

Parañaque City, Metro Manila, Philippines
April 11, 2023

METROCARE HEALTH SYSTEMS, INCORPORATED
STATEMENTS OF FINANCIAL POSITION

	Notes	DECEMBER 31, 2022	2021
A S S E T S			
CURRENT ASSETS			
Cash	6,28	₱ **2,298,093**	₱ 3,553,316
Trade and other receivables	7,28	**1,955,898**	771,897
Short-term investments	8,28	**12,002,781**	11,965,367
Other current assets	9	**214,880**	83,475
		16,471,652	16,374,055
NONCURRENT ASSETS			
Property and equipment	10	**128,828**	436,567
Deferred tax assets	26	**379,458**	336,515
Other noncurrent assets	11	**879,570**	844,570
		1,387,856	1,617,652
TOTAL ASSETS		₱ **17,859,508**	₱ 17,991,707

	Notes	2022	2021
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	12,28	₱ **641,720**	₱ 1,164,402
Membership fee reserve	13,28	**192,040**	176,450
Claims reserve	14,28	**465,236**	1,110,195
Income tax payable		**21,298**	71,437
		1,320,294	2,522,484
NON-CURRENT LIABILITY			
Retirement benefit obligation	15	**1,702,290**	1,487,574
TOTAL LIABILITIES		**3,022,584**	4,010,058
EQUITY			
Share capital	16	**10,000,000**	10,000,000
Retained earnings		**4,836,924**	3,981,649
TOTAL EQUITY		**14,836,924**	13,981,649
TOTAL LIABILITIES AND EQUITY		₱ **17,859,508**	₱ 17,991,707

See accompanying Notes to Financial Statements.

METROCARE HEALTH SYSTEMS, INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME

		FOR THE YEARS ENDED DECEMBER 31,	
	Note	**2022**	2021
REVENUES FROM RENDERING OF SERVICES	17	**₱ 15,517,420**	₱ 15,571,112
COST OF RENDERING SERVICES	18	**(5,498,925)**	(5,339,788)
GROSS PROFIT		**10,018,495**	10,231,324
OTHER INCOME	19	**92,850**	205,075
OPERATING AND ADMINISTRATIVE EXPENSES	20	**(8,610,167)**	(8,039,315)
OTHER EXPENSES	21	**(367,768)**	(549,129)
PROFIT BEFORE TAX		**1,133,410**	1,847,955
INCOME TAX EXPENSE			
Current	26	**(321,078)**	(394,917)
Deferred		**42,943**	(82,040)
		(278,135)	(476,957)
PROFIT FOR THE YEAR		**₱ 855,275**	₱ 1,370,998
COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME		**₱ 855,275**	₱ 1,370,998

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
REVENUE DISTRICT OFFICE NO.051
PASAY CITY
RECEIVED
INITIAL: ________ DATE APR 17 2023
RCO'S NAME: [illegible] - REVENUE OFFICER

METROCARE HEALTH SYSTEMS, INCORPORATED
STATEMENTS OF CHANGES IN EQUITY

	Share Capital (Note 16)	Retained Earnings (Note 16)		Total Equity
Balance at December 31, 2021	10,000,000	3,981,649	₱	13,981,649
Profit for the year		**855,275**		**855,275**
Balance at December 31, 2022	**10,000,000**	**4,836,924**	**₱**	**14,836,924**

Balance at December 31, 2020	10,000,000	2,610,651	₱	12,610,651
Profit for the year		1,370,998		1,370,998
Balance at December 31, 2021	10,000,000	3,981,649	₱	13,981,649

See accompanying Notes to Financial Statements.

METROCARE HEALTH SYSTEMS, INCORPORATED
STATEMENTS OF CASH FLOWS

		FOR THE YEARS ENDED DECEMBER 31,	
	Notes	**2022**	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		₱ **1,133,410**	₱ 1,847,955
Adjustments for:			
Depreciation	10,23	**307,739**	419,219
Interest income	19	**(92,850)**	(89,639)
Interest income from BDO - Unit investment trust fund		**-**	(1,649)
Operating income before working capital changes		**1,348,299**	2,175,886
Decrease (increase) in:			
Trade and other receivables		**(1,184,001)**	(36,312)
Other current assets		**(131,405)**	169,810
Increase (decrease) in:			
Trade and other payables		**(522,682)**	777,899
Membership fee reserve		**15,590**	122,970
Claims reserve		**(644,959)**	(344,413)
Retirement benefit obligation		**214,716**	222,390
Income tax payable		**(50,139)**	71,437
Cash generated from (used for) operation		**(954,581)**	3,159,667
Income tax paid		**(321,078)**	(394,917)
Net cash provided by (used in) operating activities		**(1,275,659)**	2,764,750
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	19	**92,850**	89,639
Interest received from BDO - Unit investment trust fund		**-**	1,649
Additions to property and equipment	10	**-**	(85,090)
Acquisition of short-term investments		**(37,414)**	(2,629,633)
Increase in other noncurrent assets		**(35,000)**	(113,787)
Net cash provided by (used in) investing activities		**20,436**	(2,737,222)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additional share capital		**-**	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,255,223)**	27,528
CASH AND CASH EQUIVALENTS AT BEG. OF YEAR		**3,553,316**	3,525,788
CASH AND CASH EQUIVALENTS AT END OF YEAI	6	₱ **2,298,093**	₱ 3,553,316

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
REVENUE DISTRICT OFFICE NO. 051
PASAY CITY
RECEIVED
APR 14 2023
INITIAL: DATE:
RCO'S NAME: QURRATUL AYN D. TANGGOL-AUSAN REVENUE OFFICER

1. CORPORATE INFORMATION, STATUS OF OPERATION AND AUTHORIZATION FOR THE ISSUANCE OF THE FINANCIAL STATEMENTS

Corporate Information

Metrocare Health Systems Incorporated (the Company) is a stock corporation organized and registered with the Philippine Securities and Exchange Commission (SEC) on March 3, 1998 under SEC Registration No. A199803289. Its primary purpose is to establish, operate, maintain, adopt, develop, promote and engage in the business of providing medical, health maintenance and related services to the public, offering comprehensive health care delivery services and systems, thru the accreditation and integration of the services of hospital, clinics, diagnostic centers and pool of medical surgical and health professional duly qualified to practice by law.

The Company is 100% owned by fifteen (15) Filipino individuals who are residents of the Philippines.

The Company's registered office address is 147 Williams St., Barangay 13 Zone 14, Pasay City.

The Company is registered with the Insurance Commission (IC) and is duly authorized to act as a health maintenance organization (HMO) with Certificate of Registration No. HMO-2023-11-R, with validity until December 31, 2025, unless sooner suspended or revoked for cause.

Status of Operation

The accompanying financial statements have been prepared on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business. (See Note 5.1)

Authorization for the Issuance of the Financial Statements

The accompanying Company financial statements as at and for the year ended December 31, 2022 was approved and authorized for issue by the Board of Directors (BOD) on April 11, 2023.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Basis of Preparation

The accompanying financial statements of the Company have been prepared using the historical cost basis. The financial statements of the Company are presented in Philippine Pesos, which is the Company's functional currency. All amounts are rounded to the nearest Philippine peso, except when otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the Philippine Securities and Exchange Commission (SEC), including the SEC provisions.

The financial reporting framework includes the PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), including the SEC pronouncements.

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements and amendments starting January 1, 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Except as otherwise indicated, the following did not have significant impact on the Company's financial statements:

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

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

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

  The Company shall also disclose information about:

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

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

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

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

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

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

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

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

Effective beginning on or after January 1, 2022

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

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

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

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

- Annual Improvements to PFRSs 2018-2020 Cycle

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

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

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

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

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

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

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

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

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2023

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

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

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

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

  The Company is currently assessing the impact of the amendments.

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

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

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

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

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

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

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Company.

Effective beginning on or after January 1, 2024

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

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

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

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

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

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

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

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

<u>Deferred effectivity</u>

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

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

Current versus Noncurrent Classification
The Company presents assets and liabilities in the Company statement of financial position based on current or noncurrent classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting date: or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting date.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be settled within twelve 12) months after the reporting date; or
- There is no unconditional right to defer settlement of the liability for at least twelve (12) months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement
The Company measures financial instruments at fair value at each reporting date.

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

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

liability.

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

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

The fair value of financial instruments that are traded in active markets at each balance sheet date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs at the close of business on the balance sheet date. When current bid prices and asking prices are not available, the prices of the most recent transaction provide evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

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

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

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

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

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

Financial Instruments

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

4.1 Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and fair value through profit or loss (FVTPL).

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

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

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

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

Subsequent Measurement under PFRS 9
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVTPL

Financial Assets at Amortized Cost
The Company measures financial assets at amortized cost if both of the following conditions are met:

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

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

Financial Assets Designated at FVOCI
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the company statement of income. Dividends are recognized in the company statement of income when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated as financial assets at FVOCI are not subject to impairment assessment. The Company elected to classify irrevocably its equity investments recognized under "Financial assets at FVOCI" under this category.

Cash
Cash includes revolving fund, cash on hand and cash in banks that are unrestricted and available for current operations. This is stated in the statements of financial position at face amount. Cash denominated in foreign currency, if any, is translated in peso using the closing rate as of the financial statement date.

Revolving fund is used for small payments not covered by checks. Cash on hand as of the end of the period were deposited the next banking day. Cash in banks are deposits held at call with banks. The company reconciles the books and bank balances regularly as part of its cash monitoring and internal control measures.

The Company's short-term investments are composed of unit investment trust fund invested in treasury bills and Peso money market fund. The unit investment trust fund which was invested in treasury bills were measured at amortized cost while the Peso money market fund were measured at fair value through profit or loss.

Impairment of Financial Assets

Policy in Accordance with PFRS 9

The Company applied the ECL model on the impairment of the following debt instruments financial assets not measured at FVTPL:

- those that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

ECL calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecast of future economic conditions.

Amount of ECL to be recognized is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The following stages are applicable to those financial assets being assessed for ECL depending on its credit quality:

Stage 1: 12-month
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

Stage 2: Lifetime ECL
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

Stage 3: Credit-impaired
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted EIR to the amortized cost of the financial asset.

Determining the Stage for Impairment
At each reporting date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as credit quality deteriorates. If, in a subsequent period, credit quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL. For trade receivables, the Company applied a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company performs an assessment whether its financial asset is in default when contractual payments are past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the company statement of financial position) when:

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

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

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

4.2 Financial Liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

After initial recognition, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the company statement of income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the company statement of income.

Derecognition
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the company statement of income.

4.3 Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the company statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

4.4 Short Term Investments
The Company's short-term investments are composed of unit investment trust fund invested in treasury bills and Peso money market fund. The unit investment trust fund which was invested in treasury bills were measured at amortized cost while the Peso money market fund were measured at fair value through profit or loss.

4.5 Other Current Assets
Other current assets include input VAT and prepaid withholding tax. These are initially recorded at transaction cost and subsequently measured at cost less impairment loss, if any.

4.6 Property and Equipment
The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period 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.

Cost also includes any asset retirement obligation and interest on borrowed funds used, if any. When assets are sold or retired, their costs and accumulated depreciation, amortization and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the Company statement of income of such period.

Subsequently, property and equipment are stated at cost, less accumulated depreciation and impairment in value, if any.

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

Communication equipment	5 years
Transportation equipment	5 years
Office furniture and equipment	5 years

The useful life of each of the property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice and experience with similar assets.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

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

Fully depreciated property and equipment are retained in the accounts until they are no longer in use.

4.7 Impairment of Non-financial Assets
The Company assesses at each reporting date whether there is an indication that these non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. The asset's or cash generating unit's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Any impairment loss is recognized in the company statement of income in those expense categories consistent with the function of the impaired asset.

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

4.8 Derecognition of Non-financial Assets
Items of property and equipment are derecognized when these assets are disposed of or when no future economic benefits are expected from these assets. Also, items of inventories are derecognized in the period the inventories are sold. The carrying amount of inventories sold is recognized as cost of sales in the statement of comprehensive loss.

4.9 Equity
This includes share capital and retained earnings.

Share Capital
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax.

The costs of acquiring Company's own shares, if any, are shown as a deduction from equity attributable to the Company's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Retained Earnings
Retained earnings represent the cumulative balance of periodic net income/loss, dividend distributions, prior period adjustments and effects of changes in accounting policy and capital adjustments, if any.

4.10 Revenue and Cost recognition
Revenue Recognition
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

The following are the specific recognition criteria in recognizing the following:

- Service income – revenue is recognized when the services have been rendered.
- Interest Income is recognized as the interest accrues (taking into account the effective yield on the asset).
- Other income is recognized when the significant and rewards of ownership have passed to the buyer.

Direct cost, operating, administrative and other expenses are recognized in the statements of comprehensive income upon utilization of the service or on the date they are incurred. Finance costs are reported on an accrual basis.

Expense Recognition
Expenses are recognized in the statement of comprehensive income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized on the basis of a direct association between the costs incurred and the earnings of specific items of income; on the basis of systematic rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Finance Cost
Finance costs, if any, comprise interest expense on borrowings and other bank charges. These are recognized in profit or loss in the period they are incurred using the effective interest method

The effective interest method is a method of calculating the amortized cost of the borrowings and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the borrowings or, when appropriate, a shorter period, to the carrying amount of the borrowings. The effective interest rate is determined on the basis of the carrying amount of the borrowings at initial recognition. Under the effective interest method: (a) the amortized cost of the borrowings is the present value of future cash payments discounted at the effective interest rate, and (b) the interest expense in a period equals the carrying amount of the borrowings at the beginning of a period multiplied by the effective interest rate for the period.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the borrowings and known credit losses that have been incurred, but it shall not consider possible future credit losses not yet incurred.

4.11 Income Taxes
Current Income Tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

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

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

Deferred income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in statement of other comprehensive income or directly in equity.

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

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

The net amount of VAT recoverable from (input VAT), or payable to (output VAT), the tax authority is included as part of "Other current assets" or "Other current liabilities" accounts, respectively, in the Company's statements of financial position.

Enactment of New Tax Law
Corporate Recovery and Tax Incentive for Enterprises (CREATE) Act

On March 26, 2021, the Office of the President of the Philippines signed into law the CREATE Act to attract more investments and maintain fiscal prudence and stability in the Philippines.

New Income Tax Rates on the Regular Income of Corporations pursuant to Republic Act (RA) No. 11534 or the CREATE Act, which further amended the National Internal Revenue Code (NIRC) of 1997, adopted the Regular Corporate Income Tax (RCIT) rate effective 01 July 2020 based on the total assets of domestic corporations as follows:

a. Domestic corporations with total assets of Php100 Million and below, and with taxable income of Php5 Million and below – 20% RCIT;
b. Domestic corporations with total assets of Php100 Million and below, and with taxable income of more than Php5 Million – 25% RCIT:
c. Domestic corporations with total assets of more than Php100 Million – 25% RCIT.

Among the other reforms, the following are the significant provisions:

1. Reduction of Minimum Corporate Income Tax (MCIT) rate from 2% to 1% for a period of 3-years (effective 01 July 2020 until 30 June 2023).

2. Improperly accumulated tax on retained earnings under Section 29 of the NIRC, as amended, has been repealed.
3. Existing enterprises under income tax holiday (ITH) shall be allowed to continue availing the ITH until the remaining period ends. Existing enterprises enjoying the 5% tax based on gross income shall be allowed to continue to enjoy the 5% tax for a period of 10 years, regardless of number of years it has been enjoying the 5% tax rate. After the expiration of the transitory period, they have the option to avail of the tax incentives under CREATE Act.

The Company's current tax liability is calculated using RCIT rate or MCIT, whichever is higher.

4.12 Employee Benefits

Employee compensation and other benefits

Employee benefits represent: (a) short-term employee benefits, which are employee benefits (other than termination benefits) that are wholly due within twelve months after the end of the period in which the employees render the related service, and (b) termination benefits, which are employee benefits payable as a result of either:) an entity's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits.

Short-term benefits

Short-term employee benefits include: (a) short-term wages, salaries and social security contributions;(b) short-term compensated absences (such as paid annual leave and paid sick leave) when the absences are expected to occur within twelve months after the end of the period in which the employees render the related employee service; and (c) non-monetary benefits (such as medical care for current employees). Short-term employee benefits are measured at the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

Retirement benefits

The Company has no formal retirement plan covering all qualified employees, but provision for retirement benefit is being recognized and actual funding for the retirement benefit program is being done. Under Republic Act 7641 (known as the Retirement Pay Law in the Philippines), in the absence of a retirement plan or agreement providing for retirement benefits of employees in the establishment, an employee upon reaching the age of sixty (60) years or more, but not beyond sixty-five (65) years which is hereby declared the compulsory retirement age, who has served at least five (5) years in the said establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one whole year.

Payments are made to qualified separated employees as and when they resign equivalent to a percentage of their monthly salary for every year of credited services to all their employees with regular employment status and are reflected as either part of employees' benefits or as a reduction of the retirement benefit obligation.

Termination benefits

Termination benefits include: by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Termination benefits are measured at the best estimate of the expenditure that would be required to settle the obligation at the reporting date. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer. When termination benefits are due more than twelve months after the end of the reporting period, they shall be measured at their discounted present value.

4.13 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Interest income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.14 Related Parties

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

4.15 Provisions and Contingencies

Provisions are recognized when the Company has a present obligation, either 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 the amount of the obligation can be estimated reliably. When the Company expects reimbursement of some or all of the expenditure required to settle a provision, the entity recognizes a separate asset for the reimbursement only when it is virtually certain that reimbursement will be received when the obligation is settled.

The amount of the provision recognized is the best estimated of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities, if any, are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are disclosed only when an inflow of economic benefits is probable.

4.16 Events After the Reporting Date

The Company identifies post year-end events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Any post year-end events that provide additional information about the statements of financial position at the reporting date (adjusting events) are recognized in the financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements when material.

The Company has evaluated subsequent events through April 11, 2023, which is the date the financial statements were available to be issued. (See Note 1)

5. SUMMARY OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements in conformity with Philippine Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. The judgments, estimates and assumptions used in the Company's financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements.

Actual results could differ from such judgments, estimates and assumptions and these are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Judgments

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

Going-Concern
Management evaluate whether relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The evaluation initially shall not take into consideration the potential mitigating effect of Management's plans that have not been fully implemented as of the date that the financial statements are issued (for example, plans to raise capital, borrow money, restructure debt, or dispose of an asset that have been approved but that have not been fully implemented as of the date that the financial statements are issued).

When evaluating an entity's ability to meet its obligations, Management considers quantitative and qualitative information' about the following conditions and events, among other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued:

- The entity's current financial condition. including its liquidity sources at the date that the financial statements are issued (for example, available liquid funds and available access to credit)
- The entity's conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in the entity's financial statements)
- The funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows within one year after the date that the financial statements are issued
- The other conditions and events, when considered in conjunction with (a), (b), and (c) above that may adversely affect the entity's ability to meet its obligations within one year after the date that the financial statements are issued.

Classification of Property
Property and equipment is held for use in the supply of goods or services or for administrative purposes.

Contingencies
The Company's estimate of the probable costs for the resolution of claims and proceedings has been developed in consultation with outside counsel handling defense in these matters and is based upon an analysis of potential results. Management and its legal counsels believe that the Company has substantial legal and factual bases for its position and are of the opinion that losses arising from these legal actions, if any, will not have a material adverse impact on

the Company's financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. Management assessed that the likelihood that any liability arising from such legal actions is remote, hence, no provision for liability has been recognized in the company financial statements.

5.2 Estimates and Assumptions

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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key Sources of Estimation Uncertainty

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

(a) ***Estimated Allowance for Impairment of Receivables***
Impairment of Financial Assets at Amortized Cost based on PFRS 9

The Company uses ECL in calculating its impairment. In the case of certain trade receivables, a provision matrix is established.

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

The assessment of the correlation between historical observed rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast economic conditions may also not be representative of customer's actual default in the future.

• *Stage 3 - Credit Impaired Financial Assets*

The Company determines impairment for each significant financial asset on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the financial assets. Financial assets included in the specific assessment are the accounts that have been endorsed to the legal department and non-moving financial assets.

• *Inputs, Assumptions and Estimation Techniques in ECL Calculation*

ECL calculation is performed for those financial assets that are not credit impaired. The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. A significant increase is assessed to have occurred if there are significant payment delays, declining operating performance of the borrower, among others. ECLs are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD).

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financial assets. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by counterparty or by customer segments.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different counterparties or customers. These LGD's are influenced by collection strategies including contracted debt sales and price.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs change are monitored and reviewed quarterly.

Provision Matrix for Trade Receivables
The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for various customer segments that have similar loss patterns.

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Incorporation of Forward-looking Information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and credit losses of each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The macro-economic variables include the following key indicators for the Philippines: unemployment rates, inflation rates, gross domestic product growth and net personal income growth.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Company has not identified any uncertain event that it has assessed to be relevant to the risk of default occurring but where it is not able to estimate the impact on ECL due to lack of reasonable and supportable information.

No provision for ECL on trade and other receivables were recognized in 2022 and 2021. The carrying amounts of trade and other receivables as at December 31, 2022 and 2021 amounted to ₱1,955,898 and ₱771,897, respectively. (See Note 7)

(b) *Estimating Useful Lives of Property and Equipment*
The Company estimates the useful lives of property and equipment based on the period over which the property, plant and equipment are expected to be available for use. The estimated useful lives of the property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment. In addition, the estimation of the useful lives of property, plant and equipment is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the noncurrent assets.

There were no changes in the estimated useful lives of property and equipment. The carrying amounts of property and equipment amounted to ₱128,828 and ₱436,567 as of December 31, 2022 and 2021, respectively. (See Note 10)

(c) *Impairment of Non-financial Assets*
The Company assesses whether there are any indicators of impairment for property and equipment, construction-in-progress, rental deposit, refundable deposit and cash bond whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make judgments and estimates that can materially affect the financial statements.

There were no provisions for impairment losses recognized in 2022 and 2021. The carrying amounts of property and equipment amounted to ₱128,828 and ₱436,567 as of December 31, 2022 and 2021, respectively. (See Note 10)

(d) Provision for Claims Reserve
The Company's claims reserve are actuarial estimates on the expected cost of claims which is the sum of claims liability for due and unpaid claims, incurred but not reported (IBNR) claims and claims handling expense (CHE) in accordance with IC Circular Letter (CL) 2020-22.

Since IC Circular Letter No. 2020-100 allows for nil recognition of margin for adverse deviation (MfAD) in 2022 and 2021, no MfAD for claims reserve was set up.

IBNR claims are based on the estimate on ultimate cost of all claims incurred but not settled as at reporting date whether reported or not. These costs include estimates of the Company's obligation for medical care services that have been rendered on behalf of the members but for which the Company has either not yet received or processed claims and for liabilities for physician, medical and clinic fees, death benefits and other medical availments.

All the products being sold and managed by the Company are yearly renewable term. As such, no assumption as to interest rates is made in premium and claims liabilities. Claims administration fees are pegged as percentage of claims so no inflation rate is assumed in CHE.

As at December 31, 2022 and 2021 the Company's claim reserves amounted to ₱465,236 and ₱1,110,195, respectively, as disclosed in Note 14.

(e) *Retirement Benefit Obligation*
The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

(f) *Deferred Tax Assets*
The Company reviews the carrying amount at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets amounted to ₱379,458 and ₱336,515 as of December 31, 2022 and 2021. (See Note 26)

(g) *Revenue recognition*
The Company's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

6. CASH

This account consists of:

		2022		2021
Revolving fund	₱	**70,000**	₱	110,000
Cash in banks		**2,228,093**		3,443,316
	₱	**2,298,093**	₱	3,553,316

A reasonable amount of revolving Fund is maintained to cover small payments not covered by checks, such as transportation, small amount of office supplies, and other payments as defined by management.

Cash in banks represent savings/current accounts in two (2) reputable local banks. Savings account deposits earn interest at the respective bank deposit rates and current account deposits do not earn interest. The Company reconciles the books and bank balances regularly as part of its cash monitoring and internal control measures.

Interest income earned from cash in banks amounted to ₱92,850 and ₱31,916 for the years 2021 and 2020, respectively. (See Note 19)

7. TRADE AND OTHER RECEIVABLES

This account consists of:

		2022		2021
Membership fee receivables	₱	**192,040**	₱	453,662
Other receivables		**1,763,858**		318,235
	₱	**1,955,898**	₱	771,897

Membership fee receivables pertains to the fixed amount that an HMO charges its clients for healthcare services, as specified in the HMO Agreement, which have accrued as of the end of accounting period.

No allowance for doubtful accounts has been provided as of December 31, 2022 and 2021 because the Company's operation and historical experience show that these receivables are generally collectible and are not impaired.

Others consist of receivables with various insignificant amounts and are expected to be collected within a short period of time.

No items of receivables were pledged as collateral to secure any liability.

8. SHORT-TERM INVESTMENTS

The Company maintains financial assets with a certain trustee bank, which are earmarked for the protection of the interest of the HMO's enrolled member-subscriber including corporate client subscribers in compliance with the deposit requirements prescribed by the IC under Circular Letter (CL) No. 2017-50, *Amendment to Minimum Capitalization and Financial Capacity Requirements for Health Maintenance Organization (HMOs).* Under this CL, every HMOs shall deposit with the IC or, at the discretion of the Commissioner, with a trustee bank acceptable to the Commissioner through which a custodial account is utilized, cash, treasury bills, treasury bonds, or any combination of these that are acceptable to the Commissioner.

The value of the deposit shall at all times be not less than 20% of the HMO's actual paid-up capital as prescribed in the CL. The deposit shall be used to protect the interest of the HMO's enrolled members and to assure continuation of health care services to them.

The Company is in compliance with the required minimum deposit requirements provided under CL no. 2017-50 as of December 31, 2022 and 2021.

The details of the Company's short-term investments are shown below:

		2022		2021
BDO - Unit investment trust fund	₱	**5,048,248**	₱	5,100,000
Peso money market fund		**6,954,533**		6,865,367
	₱	**12,002,781**	₱	11,965,367

BDO - Unit investment trust fund earned interest at a rate of 1.4050% and was acquired on January 26, 2022 while the Peso money market fund which was acquired on December 20, 2021, is measured depending on the current fair value at the date of reporting period. BDO-Unit investment trust fund was expected to mature on January 26, 2023 while termination of Peso money market fund is based on the discretion of the management.

Interest income earned from investment in BDO - Unit investment trust fund during the year 2022 and 2021 amounts to ₱nil and ₱1,649, respectively, while the unrealized gain recognized due to change in fair value from Peso money market fund for the same years amounts to ₱891,166 and ₱nil, respectively.

9. OTHER CURRENT ASSETS

This account consists of:

		2022		2021
Input VAT	₱	**23,217**	₱	36,050
Prepaid expenses		**135,830**		-
Prepaid withholding tax		**55,833**		47,425
	₱	**214,880**	₱	83,475

Input VAT represents value added tax (VAT) paid to suppliers that can be claimed as credit against the Company's VAT liabilities.

Prepaid expenses refer to unamortized prepayments including but not limited to insurance premiums and will be charged to expense in the next financial year.

Prepaid withholding tax refers to the overpayment of withholding tax on compensation.

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

At Cost	Dec. 31, 2021	Additions	Disposals / Write-offs	Dec. 31, 2022	Dec. 31, 2022 Carrying Amounts
Cost					
Communication equipment	126,848	-	-	126,848	₱ -
Transportation equipment	4,116,566	-	-	4,116,566	-
Office furniture and equipment	5,554,732	-	-	5,554,732	**128,828**
	9,798,146	-	-	9,798,146	
Less accumulated depreciation:					
Communication equipment	126,848	-	-	126,848	
Transportation equipment	4,116,566	-	-	4,116,566	
Office furniture and equipment	5,118,165	307,739	-	5,425,904	
	9,361,579	307,739	-	9,669,318	
	436,567			128,828	**₱ 128,828**

At Cost	Dec. 31, 2020	Additions	Disposals / Write-offs	Dec. 31, 2021	Dec. 31, 2021 Carrying Amounts
Cost					
Communication equipment	126,848	-	-	126,848	₱ -
Transportation equipment	4,116,566	-	-	4,116,566	-
Office furniture and equipment	5,469,642	85,090	-	5,554,732	436,567
	9,713,056	85,090	-	9,798,146	
Less accumulated depreciation:					
Communication equipment	126,848	-	-	126,848	
Transportation equipment	4,116,566	-	-	4,116,566	
Office furniture and equipment	4,698,946	419,219	-	5,118,165	
	8,942,360	419,219	-	9,361,579	
	770,696			436,567	₱ 436,567

Property and equipment are carried at cost less accumulated depreciation and any impairment in value. The carrying amount of the property and equipment is equivalent to its fair value.

No assets were found impaired. Depreciation charged to operations amounted to ₱307,739 for the year 2022 and ₱419,219 for the year 2021. See Note 23

No property and equipment have been pledged as security for liabilities.

11. OTHER NONCURRENT ASSETS

The Company's other noncurrent assets consist of:

		2022		2021
Refundable deposits	₱	**679,570**	₱	644,570
Investment in shares of stock		**200,000**		200,000
	₱	**879,570**	₱	844,570

The composition of the refundable deposits is as follows:

		2022		2021
Deposits to accredited hospitals and clinics	₱	**518,400**	₱	495,000
Deposit to Meralco		**119,170**		119,170
Rental deposit		**35,000**		23,400
Deposit to legal counsel		**7,000**		7,000
	₱	**679,570**	₱	644,570

Investment in shares of stock refers to the membership of the Company to The Riviera Golf Club, Inc., equivalent to one share, remeasured at its fair value.

12. TRADE AND OTHER PAYABLES

This account consists of:

		2022		2021
Accounts payable	₱	**384,409**	₱	511,870
Payable to government agencies		**243,207**		431,702
Other payables		**14,104**		220,830
	₱	**641,720**	₱	1,164,402

Accounts payable represent the unpaid portion of the Company's purchases of goods and services from its suppliers. They do not earn interest and are expected to be settled within a short period of time.

Payable to government agencies are the Company's statutory obligations which have been recognized as at the end of the reporting date and are expected to be paid the following month.

Other payables are also non-interest bearing payables and do not earn interest. They are expected to be settled within a short period of time.

13. MEMBERSHIP FEE RESERVE

This account refers to all future claim payments and related policy expense including maintenance and claims settlement expense out of events arising after the valuation date that the Company is liable in the future.

As prescribed in IC Circular 2020-22, Unearned portion of Membership Fee (Net of VAT and Commission) received by the Company which is applicable for the period of coverage beyond December 31, 2022 and 2021 using exact number of days unearned (1/365th method), was set as Membership Fee Reserves. The due date, modal premium, mode and coverage expiry were used as the bases for the calculation of the unearned portion of the membership fees from valuation date to the end of the period covered by the premium.

As of December 31, 2022 and 2021, the total membership fee reserve amounted to ₱192,040 and ₱176,450, respectively.

14. CLAIMS RESERVE

This account consists of:

		2022		2021
Due and unpaid claims	₱	**465,236**	₱	521,399
Incurred but not reported claims (IBNR)		-		454,245
Claims handling expense		-		134,551
	₱	**465,236**	₱	1,110,195

Due and unpaid claims consist of adjudicated claims and are awaiting payment. These have already undergone claims review and verification and have been endorsed for payment preparation.

Incurred but not reported claims (IBNR) refers to the amount to be provided for claims in respect of claim events that have occurred but have not been reported to the Company as of the valuation date.

Claims handling expense reserve refers to the estimated amount of expenses for settling all claims, whether reported or unreported, outstanding as of valuation date.

The IC, in its Circular Letter 2020-22, requires its regulated institutions to report company-specific margin for adverse deviation for expected future experience. Further, in Circular Letter 2020-100, companies shall be allowed to set margin for adverse deviation at 0% for the year 2021 and 2020, 50% mandatory for 2022 and 100% mandatory for 2023 and onwards. The Company did not set-up margin during the year.

The reconciliation of the provision for claims reserve is shown below:

December 31, 2022	**Due and unpaid claims**	**Claims Incurred but not reported**	**Claims handling expense**	**Total**
Balances at beginning of year	521,399	454,245	134,551	1,110,195
Changes in claims reserve	-	-	-	-
	521,399	454,245	134,551	1,110,195

December 31, 2021	Due and unpaid claims	Claims Incurred but not reported	Claims handling expense	Total
Balances at beginning of year	709,441	454,245	290,922	1,454,608
Changes in claims reserve	(188,042)	-	(156,371)	(344,413)
	521,399	454,245	134,551	1,110,195

15. RETIREMENT BENEFIT OBLIGATION

On December 9, 1992, R.A. No. 7641 was enacted into law amending the provisions of Article 287 Presidential Decree No. 442, otherwise known as the Labor Code of the Philippines, providing for retirement pay to qualified private sector employees in the absence of any retirement plan in the establishment.

The Company has no retirement plan for its qualifying employees. Retirement benefits have been computed based on R.A. 7641 using actual historical data.

Movements in the retirement benefit obligation are summarized below:

	2022	2021
At beginning of year	**₱ 1,487,574**	₱ 1,265,184
Add: Retirement benefits during the year	**214,716**	222,390
At end of year	**₱ 1,702,290**	₱ 1,487,574

16. SHARE CAPITAL

The details of the authorized, issued and fully paid share capital as of December 31, 2022 and 2021 are as follows:

	2022		2021	
	Amount	**Number of Shares**	Amount	Number of Shares
Authorized capital stock				
Common shares - ₱1 par value	**₱ 12,000,000**	**12,000,000**	₱ 12,000,000	12,000,000
Subscribed and fully paid				
Common shares - ₱1 par value	**₱ 10,000,000**	**10,000,000**	₱ 10,000,000	10,000,000

17. REVENUE FROM RENDERING OF SERVICES

This account consists of:

	2022	2021
Service income	**₱ 15,517,420**	₱ 15,571,112

Revenue is composed of earned and collected premium during the year. Revenue is disaggregated according to the following:

a. Types of goods and services

The Company earned a total revenue from rendering of services during 2022 and 2021 amounting to ₱15,517,420 and ₱15,571,112, respectively.

b. Geographical region

All services performed by the Company were made to local members within the Philippines. No services were performed outside the Philippines for the years ending December 31, 2022 and 2021.

c. Type of customer

The Company deals only with outside parties for the years 2022 and 2021 since it has no related party.

d. Type of contract

The Company is committed itself to the contract of performing services for the years 2022 and 2021. All of the HMO agreements of the Company are on yearly renewable term and the Company assumes the risk of funding the client's healthcare services.

e. Timing of recognition

All revenue is recognized upon collection of billed premium for 2022 and 2021.

Gross premium on insurance contract are recognized for the whole coverage period entered during the accounting period and on the inception of the policy. However during 2020, the Company sought an advisory from Insurance Commission deferring such method of recognition of income in 2021.

f. Sales channel

The Company's revenue for the years ending December 31, 2022 and 2021 were earned through direct performance of services by the Company. No revenue was made indirectly by the Company.

18. COST OF RENDERING SERVICES

This account consists of:

	Note	2022	2021
Medical availments	22	**₱ 3,760,560**	₱ 3,814,202
Clinical and medical fees		**833,000**	471,370
Doctors' fees	24	**556,032**	670,630
Stationery and office supplies		**279,333**	153,586
Death benefits		**70,000**	230,000
		₱ 5,498,925	₱ 5,339,788

Cost of rendering services are recognized in the statements of income upon utilization of the service or on the date they are incurred.

19. OTHER INCOME

This account consists of:

	Note		2022		2021
Interest income:					
Bank deposits	6	₱	**92,850**	₱	89,639
Short term investments	8		**-**		1,649
Other income			**-**		113,787
		₱	**92,850**	₱	205,075

Interest income is income earned from the Company's savings account in the banks.

Other income represents contingent profit commission from insurance companies.

20. OPERATING AND ADMINISTRATIVE EXPENSES

This account consists of:

	Note		2022		2021
Personnel costs	22	₱	**4,491,556**	₱	4,623,492
Communication, light and water			**757,553**		873,773
Professional fees	7		**721,000**		807,000
Rental			**420,000**		35,000
Taxes and licenses	29		**394,840**		194,013
Repairs and maintenance			**345,406**		122,185
Membership dues			**311,050**		75,200
Depreciation	23		**307,739**		419,219
Transportation and travel			**305,243**		371,954
Entertainment, amusement and recreation (EAR)			**159,590**		26,332
Stationery and office supplies			**147,287**		230,849
Commissions			**117,042**		253,158
Security services			**106,290**		-
Insurance			**17,078**		7,140
Advertising and promotions			**8,493**		-
		₱	**8,610,167**	₱	8,039,315

Operating and administrative expenses are recognized in the statements of income upon utilization of the service or on the date they are incurred.

21. OTHER EXPENSES

This account consists of:

		2022		2021
Deficiency tax, penalties and surcharges	₱	**350,113**	₱	538,811
Others		**17,655**		10,318
	₱	**367,768**	₱	549,129

Deficiency taxes represent payments to the Bureau of Internal Revenue for the taxable year 2020

Other expenses consist of various insignificant amounts.

22. EMPLOYEES' COMPENSATION AND OTHER BENEFITS

This account consists of:

	Operating and Administrative Expenses		
	2022		2021
Salaries, wages and bonuses	**₱ 3,891,862**	₱	4,030,961
Employees' benefits	**118,470**		67,865

Training and advancement program	**23,286**	-
Retirement benefits	**214,716**	222,390
SSS, PHIC, ecc and HDMF cont.	**243,222**	302,276
	₱ 4,491,556	₱ 4,623,492

Salaries, wages and bonuses pertain to the employees' compensation such as basic salaries, overtime pay, De Minimis benefits, bonuses and other benefits received from the Company.

23. DEPRECIATION

This account consists of:

	Operating and Administrative Expenses	
	2022	2021
Office furniture and equipment	₱ **307,739**	₱ 419,219

24. 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 or common significant influence.

The Company, in the normal course of business, has no transactions with related parties.

Key Management Compensation
Compensation and other benefits of key management personnel of the Company are as follows:

	2022	2021
Short-term employee benefits	₱ **1,896,824**	₱ 1,469,797
Post-employment benefits	**67,349**	52,187
	₱ **1,964,173**	₱ 1,521,984

25. LEASES

The Company as Lessee
The Company entered into an operating lease contract with Santa Rosanna Corp, under operating lease agreements. The parcel of land with improvement comprising of office spaces with an approximately 723.10 square meters were located at Gatchalian Subdivision, Cabuyao, Laguna. Rental payment shall be made every first five (5) working days of each month. Monthly rental amounts to ₱235,000 exclusive of VAT.

Due to the COVID-19 pandemic, the lessor waived the rent charges to the lessee starting from July 2020 until December 2021.

Total rent expense incurred for 2022 and 2021 related to this lease were charged to operating expense amounting to ₱420,000 and ₱35,000, respectively, as disclosed in Note 20.

26. INCOME TAXES

The Company's deferred tax assets relate to the following temporary differences:

	2022	2021
Deferred tax assets:		
Retirement benefit obligation	₱ **340,458**	₱ 297,515
Unrealized loss on investment in shares	**39,000**	39,000
	₱ **379,458**	₱ 336,515

The reconciliation of income tax on income before income tax computed at the statutory tax rate to benefit from income tax as shown in the statements of income is summarized as follows:

		2022		2021
Income tax computed at statutory tax rate of 20%	₱	**226,682**	₱	369,591
NOLCO		**-**		(108,657)
Income tax effects of :				
Unfunded retirement benefits		**42,943**		44,478
Unallowed deficiency taxes		**70,023**		107,762
Interest income already subjected to final tax		**(18,570)**		(18,257)
	₱	**321,078**	₱	394,917
MCIT tax rate 1%	₱	**100,185**	₱	103,468

In compliance with Revenue Regulation No. 9-98, the Company has computed its income tax liability using the higher figure between the resulting "Normal Tax Rate" and the "Minimum Corporate Income tax" (MCIT).

27. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below.

Management of Financial Risk

Governance Framework

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risk. It also supports the effective implementation of policies.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

Capital Management Framework

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the Company are exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly, the anticipated impact on the realistic balance sheet and revenue account, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

Regulatory Framework

The operation of the Company is also subject to the regulatory requirements of SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

Fair Value Information

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

Current financial assets and financial liabilities

Due to the short-term nature of the transactions, the fair value of cash, trade and other receivables, trade and other payables approximate the carrying amounts as of the reporting date.

Refundable deposits
The carrying value approximates the fair value of refundable deposits included under "Other noncurrent assets" in the statements of financial position because of recent and regular repricing based on market conditions.

Financial Risk
The Company is also exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are credit risk, liquidity risk and market risk.

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

The Company's credit risk is primarily attributable to its cash and receivables. The Company has adopted stringent procedures in extending credit terms to customers and in monitoring its credit risk.

The Company manages the level of credit risk it accepts through comprehensive credit risk policy setting out assessment and determination of what constitutes credit risk for the Company; setting up exposure limits by each counterparty or group of counterparties, geographical and industry segments; guidelines on obtaining collateral and guarantees; reporting of credit risk exposures and breaches to the monitoring authority; monitoring compliance with credit risk policy and review of credit risk policy for pertinence and changing environment.

Credit Quality of Financial Assets
The credit quality of financial assets is managed by the Company using high grade and standard grade as internal credit ratings.

High Grade. This pertains to counterparty who is not expected by the Company to default in settling obligations, thus, credit risk exposure is minimal. This normally includes large prime financial institutions, companies, government agencies and individual buyers. Credit quality was determined based on the credit standing of the counterparty.

Standard Grade. Other financial assets not assessed as high grade financial assets are included in this category.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position. The maximum exposure is shown gross, without taking into account collateral and other credit enhancement.

	Gross Maximum Exposure	
	2022	2021
Cash in banks	**₱ 2,228,093**	₱ 3,443,316

* *Excludes revolving fund amounting to ₱70,000 in 2022 and ₱110,000 in 2021.*

The aging analyses of financial assets as of December 31, 2022 and 2021 that were past due but not impaired are as follows:

	2022					
	Neither Past Due nor Impaired	**Past Due but not Impaired**				
		30 Days	**90 Days**	**More than 150 Days**	**Impaired**	**Total**
Cash *	2,228,093	-	-	-	-	2,228,093
Receivables :						
Membership fee receivables	72,975	28,806	19,204	71,055	-	192,040

Other receivables	317,494	88,193	49,388	1,308,783	-	1,763,858
	2,618,562	116,999	68,592	1,379,838	-	4,183,991

	2021					
	Neither Past Due nor Impaired	Past Due but not Impaired				
		30 Days	90 Days	More than 150 Days	Impaired	Total
Cash *	3,443,316	-	-	-	-	3,443,316
Receivables :						
Membership fee receivables	172,392	68,049	45,366	167,855	-	453,662
Other receivables	57,282	15,912	8,911	236,130	-	318,235
	3,672,990	83,961	54,277	403,985	-	4,215,213

* *Excludes revolving fund amounting to ₱70,000 in 2022 and ₱110,000 in 2021.*

The Company's financial assets which are neither past due nor impaired include cash to counterparty with good credit rating or bank standing, and receivables from clients.

Allowance for doubtful accounts is computed for age receivables over the estimated percentage of uncollectability of the accounts receivables as follows:

Neither past due nor impaired	1%
31-60 days	2%
61-90 days	3%
More than 90 days	5% or more

Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or counterparty failing on repayment of contractual obligation; or inability to generate cash inflows as anticipated.

The Company maintains cash to meet its liquidity requirements for up to 30-day periods and the Company maintains adequate highly liquid assets in the form of cash and receivables to assure necessary liquidity, if any. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

The Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows and a balance between continuity of funding and flexibility through the use of bank loans and advances from related parties, if there's any.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2022 and 2021 based on contractual undiscounted payments.

		2022		
	Within 30 days	**1 Year**	**Above 1 Year**	**Total**
Accounts payable	153,764	230,645	-	384,409
Payable to government agencies	97,283	145,924	-	243,207
Other payables	5,642	8,462	-	14,104
Due and unpaid claims	186,094	279,142	-	465,236
	442,783	664,173	-	1,106,956

		2021		
	Within 30 days	1 Year	Above 1 Year	Total
Accounts payable	204,748	307,122	-	511,870
Payable to government agencies	172,681	259,021	-	431,702
Other payables	88,332	132,498	-	220,830
Due and unpaid claims	208,560	312,839	-	521,399
Incurred but not reported claims (IBNR)	181,698	272,547	-	454,245

Claims handling expense	53,820	80,731	-	134,551
	909,839	1,364,758	-	2,274,597

The fair values of payables have not been individually disclosed as, due to their short duration, management considers the carrying amounts recognized in the statements of financial position to be reasonable approximation of their fair values.

Interest Rate Risk
Interest rate risks arises from the possibility that the changes in interest rates will affect the fair value of financial instruments. Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as floating interest rate is fixed until the maturity of the instrument.

There is no Company's financial instrument that are exposed to cash flow interest rate risk.

Capital Management
The Company's objectives when managing capital are to increase the value of the shareholders' investment. It sets strategies with the objective of establishing a resourceful financial management structure.

Management sees to it that equity is closely monitored in proportion to risk. Total equity comprises all components of equity including members' share capital and accumulated members' deficiency of revenues over costs and expenses.

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

	2022	2021
Liabilities	**₱ 3,022,584**	₱ 4,010,058
Equity	**₱ 14,836,924**	₱ 13,981,649
Debt-to-Equity Ratio	**0.20 : 1**	0.29 : 1

The Company is not subjected to externally imposed capital requirements and there were no changes in the Company's approach to capital management during the period.

28. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments
Fair value is the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Set out below is a comparison by category of the carrying values and fair values of all of the Company's financial instruments that are carried in the financial statements as of December 31, 2022 and 2021:

	Note	**2022**		2021	
		Carrying amount	**Fair Value**	Carrying amount	Fair Value
Financial Assets:					
Cash in banks	6	**₱ 2,228,093**	**₱ 2,228,093**	₱ 3,443,316	₱ 3,443,316
Trade and other receivables	7	**1,955,898**	**1,955,898**	771,897	771,897
Short term investment	8	**12,002,781**	**12,002,781**	11,965,367	11,965,367
		16,186,772	**16,186,772**	16,180,580	16,180,580
Financial Liabilities:					
Trade and other payables	12	**641,720**	**641,720**	1,164,402	1,164,402
Membership fee reserve	13	**192,040**	**192,040**	176,450	176,450
Claims reserve	14	**465,236**	**465,236**	1,110,195	1,110,195
		₱ 1,298,996	**₱ 1,298,996**	₱ 2,451,047	₱ 2,451,047

Cash in Banks, Trade and Other Receivables, Short Term Investments, Trade and Other Payables, Membership Fee Reserve, Claims Reserve
Due to the short term nature of these financial instruments, their fair values approximate the carrying amounts as of balance sheet date.

Fair Value Hierarchy
As at December 31, 2022, the Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have significant effect on the fair value that are not based on observable market data.

As at December 31, 2022, the Company has no financial assets carried at fair value which is based on Levels 1 and 2.

29. SUPPLEMENTARY TAX INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR)

A. BIR Revenue Regulation No. 15-2010

On November 25, 2010, the BIR issued Revenue Regulation No. 15-2010, which required certain information on taxes, duties and license fees paid or accrued during taxable year to be disclosed as part of the notes to financial statements. The Company reported and/or paid the following types of taxes:

Value-added Tax (VAT)
The National Internal Revenue Code of 1997 provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT.

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

a. Value Added Tax (VAT)

		2022
Output VAT	₱	1,862,090
Basis of Output Vat		
Vatable		
Service income	₱	15,517,420
Other income		-
	₱	15,517,420

		2021
Input VAT		
Beginning of the year	₱	36,050
Current year's domestic purchases:		
Services lodged under other accounts		464,874
Claims for tax credit/refund and other adjustments		(477,707)
Balance at the end of the year	₱	23,217

b. Withholding Taxes

		2022
Tax on compensation and benefits	₱	244,493
Expanded withholding taxes		304,763
	₱	549,256

c. All Other Taxes

Other taxes paid during the year recognized under "Taxes and licenses" account in Operating and Administrative Expenses.

		2022
Business licenses and permits	₱	189,747
Community tax certificate		9,568
Fire safety inspection fee		3,000
BIR registration		500
IC fee - AFS (with penalty late filing)		20,200
IC fee - HMO clearance to operate		151,500
IC fee - Supervision fee		20,200
Other licenses and permits		125
	₱	394,840

B. **BIR Revenue Regulation No. 34-2020**

On December 22, 2020, the BIR issued Revenue Regulation No. 34-2020 to inform all concerned on the streamlined guidelines and procedures in the submission of BIR Form 1709 (Information Return on Related Party Transactions) and its required attachments including transfer pricing documentation (TPD).

ONG, NOCEJA & ASSOCIATES
Certified Public Accountants

Supplemental Statement of Independent Auditors
To Accompany Financial Statements For Filing With
The Securities and Exchange Commission
(Statement Required by Rule 68, Part 1, Section 3,
Securities Regulation Code (SRC), As Amended on October 20, 2011)

The Board of Directors and Stockholders
METROCARE HEALTH SYSTEMS, INCORPORATED
147 Williams St., Barangay 13
Zone 14, Pasay City

We have examined the financial statements of METROCARE HEALTH SYSTEMS, INCORPORATED as at and for the year ended December 31, 2022, on which we have rendered the attached report dated April 11, 2023.

In compliance with the Revised Securities Registration Code Rule 68, we are stating that the Company has two (2) shareholders owning one hundred (100) or more shares of the Company's capital stock as at December 31, 2022.

ONG, NOCEJA & ASSOCIATES

BY: LAGRIMAS N. ONG
PARTNER
CPA Cert. No. 38847
Tax Identification No. 153-104-203
PTR 3199590, January 4, 2023 @ Parañaque City
FIRM's PRC/BOA Cert. of Registration No. 9308, Valid until August 6, 2024
SEC Group C Accreditation
Partner - Accreditation No. 38847-SEC Valid for Audit Period 2020 - 2024
Firm – 9308-SEC Valid for Audit Period 2020 - 2024
IC Group C Accreditation
Partner - Accreditation No. 38847-IC Valid for Audit 2020 - 2024
Firm – 9308-IC Valid for Audit Period 2020 - 2024

Parañaque City, Metro Manila, Philippines
April 11, 2023