CARD Leasing and Finance Corporation

Audited Financial Statements
December 31, 2022 and 2021

and

Independent Auditor's Report

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
CARD Leasing and Finance Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CARD Leasing and Finance Corporation (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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD Leasing and Finance Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 9369777, January 3, 2023, Makati City

April 28, 2023

CARD LEASING AND FINANCE CORPORATION
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2022	2021
ASSETS		
Current Assets		
Cash (Note 6)	**₱38,990,987**	₱4,572,214
Current portion of receivables (Note 7)	**226,972,631**	165,259,980
Financial assets at fair value through other comprehensive income (Note 8)	**2,452,175**	–
Other current assets (Note 9)	**1,608,652**	1,720,711
	270,024,445	171,552,905
Noncurrent Assets		
Receivables - net of current portion (Note 7)	**118,755,967**	100,448,464
Equipment held for lease (Note 10)	**70,917,096**	95,673,286
Property and equipment (Note 11)	**481,624**	451,759
Investment properties (Note 12)	**29,551,987**	30,074,654
Retirement asset (Note 23)	**1,681,393**	1,332,926
Deferred tax assets (Note 24)	**560,360**	1,287,431
Other noncurrent assets (Note 13)	**1,631,711**	4,871,815
	223,580,138	234,140,335
TOTAL ASSETS	**₱493,604,583**	₱405,693,240
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 14)	**₱27,376,672**	₱8,827,122
Current portion of loans payable (Notes 15 and 25)	**202,703,019**	92,383,969
Current portion of lease deposits (Note 16)	**14,205,401**	32,046,876
Income tax payable	**1,697,470**	4,758,575
Output VAT payable	**1,400,259**	1,367,208
	247,382,821	139,383,750
Noncurrent Liabilities		
Loans payable - net of current portion (Notes 15 and 25)	**66,015,458**	75,077,327
Lease deposits - net of current portion (Note 16)	**10,971,869**	8,168,005
	76,987,327	83,245,332
	324,370,148	222,629,082
Equity		
Capital stock (Note 17)	**100,000,000**	100,000,000
Retained earnings	**71,904,750**	85,798,147
Remeasurement gain on retirement plan (Note 23)	**1,240,162**	1,125,619
Unrealized loss on financial assets at fair value through other comprehensive income (Note 8)	**(3,910,477)**	(3,859,608)
	169,234,435	183,064,158
TOTAL LIABILITIES AND EQUITY	**₱493,604,583**	₱405,693,240

See accompanying Notes to Financial Statements.

CARD LEASING AND FINANCE CORPORATION
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2022	2021
OPERATING INCOME		
Rental and finance income (Note 19)	**₱113,064,311**	₱153,404,637
Interest income (Notes 6, 7 and 20)	**40,410,812**	35,306,695
	153,475,123	188,711,332
Sales	**87,969,603**	51,259,041
Cost of sales (Notes 18)	**(74,401,385)**	(43,844,119)
Gross income	**13,568,218**	7,414,922
Miscellaneous income	**6,233,059**	4,364,843
	19,801,277	11,779,765
	173,276,400	200,491,097
EXPENSES		
Depreciation (Note 10)	**46,121,901**	73,997,954
Provision for (reversal of) credit losses (Note 7)	**12,611,866**	(10,136,069)
Compensation and benefits (Notes 21, 23 and 25)	**12,432,607**	11,848,571
Interest (Notes 15 and 16)	**10,106,317**	12,051,444
Professional fees	**5,138,196**	6,358,595
Insurance	**3,868,870**	1,616,741
Seminars and meetings	**1,906,190**	2,761,906
Program monitoring and evaluation	**1,498,065**	2,101,681
Taxes and licenses	**1,230,993**	1,056,087
Transportation and travel	**975,925**	751,719
Supplies and materials	**485,285**	382,236
Rent (Note 19)	**242,174**	130,153
Staff training and development	**172,072**	19,200
Miscellaneous (Note 22)	**6,671,906**	3,491,527
	103,462,367	106,431,745
INCOME BEFORE INCOME TAX	**69,814,033**	94,059,352
PROVISION FOR INCOME TAX (Note 24)	**18,707,430**	22,172,798
NET INCOME	**51,106,603**	71,886,554
OTHER COMPREHENSIVE LOSS		
Items that may not be reclassified to profit or loss:		
Remeasurement loss on retirement plan (Note 23)	**152,721**	189,197
Unrealized loss on financial assets at fair value through other comprehensive income (Note 8)	**(67,825)**	(4,802,300)
Income tax effects (Note 24)	**(21,224)**	1,158,864
	63,672	(3,454,239)
TOTAL COMPREHENSIVE INCOME	**₱51,170,275**	₱68,432,315

See accompanying Notes to Financial Statements.

CARD LEASING AND FINANCE CORPORATION

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 17)	Retained Earnings	Remeasurement Gain (Loss) on Retirement Plan (Note 23)	Unrealized Loss on Financial Assets at FVOCI (Note 8)	Total
Balance at January 1, 2022	**₱100,000,000**	**₱85,798,147**	**₱1,125,619**	**(₱3,859,608)**	**₱183,064,158**
Total comprehensive income (loss) for the year	**–**	**51,106,603**	**114,541**	**(50,869)**	**51,170,275**
Cash dividends declared and paid (Note 17)	**–**	**(65,000,000)**	**–**	**–**	**(65,000,000)**
Balance at December 31, 2022	**₱100,000,000**	**₱71,904,750**	**₱1,240,160**	**(₱3,910,477)**	**₱169,234,433**
Balance at January 1, 2021	₱100,000,000	₱78,911,593	₱918,140	(₱197,890)	₱179,631,843
Total comprehensive income (loss) for the year	–	71,886,554	207,479	(3,661,718)	68,432,315
Cash dividends declared and paid (Note 17)	–	(65,000,000)	–	–	(65,000,000)
Balance at December 31, 2021	₱100,000,000	₱85,798,147	₱1,125,619	(₱3,859,608)	₱183,064,158

See accompanying Notes to Financial Statements.

CARD LEASING AND FINANCE CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱ 69,814,031**	₱94,059,352
Adjustments for:		
Depreciation (Note 10)	**46,121,900**	73,997,954
Interest income (Notes 6 and 20)	**(40,410,812)**	(35,306,695)
Interest expense (Notes 15 and 16)	**10,106,317**	12,051,444
Provision for (reversal of) credit losses (Note 7)	**12,611,866**	(10,136,069)
Accounts written off	**(10,425,874)**	-
Gain on disposal of equipment held for lease (Note 10 and 11)	**(4,780,571)**	(3,253,557)
Amortization of unearned rental income	**241,498**	(1,857,403)
Retirement expense (Note 23)	**241,219**	354,535
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Receivables	**(82,822,667)**	(61,097,136)
Other current assets	**112,058**	(1,395,813)
Non-current assets	**3,829,934**	4,226,457
Increase (decrease) in the amounts of:		
Trade and other payables	**(5,663,433)**	1,153,553
Lease deposits	**(15,037,612)**	(12,929,188)
Net cash generated from operations	**(16,062,145)**	59,867,434
Interest received	**41,027,334**	33,973,928
Income taxes paid	**(18,828,459)**	(20,404,007)
Interest paid	**(10,106,317)**	(8,986,048)
Contributions to the retirement fund (Note 23)	**(354,858)**	(324,713)
Net cash provided by operating activities	**(4,324,446)**	64,126,594
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Equipment held for lease (Note 10)	**(21,344,018)**	(27,271,471)
Financial assets at FVOCI (Note 8)	**(2,452,175)**	–
Property and equipment (Note 11)	**(298,213)**	(1,018,398)
Investment property (Note 12)	–	(5,366,118)
Proceeds from:		
Disposals of equipment held for lease (Note 10)	**5,549,893**	5,874,049
Disposals of property and equipment (Note 11)	–	831,091
Net cash used in investing activities	**(18,544,513)**	(26,950,847)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of loans payable (Note 15)	**255,460,000**	130,700,000
Deposit for stock subscription	**21,030,550**	-
Payments for:		
Loans payable (Note 15)	**(152,922,349)**	(135,289,422)
Dividends declared (Note 17)	**(65,000,000)**	(65,000,000)
Documentary stamp taxes on loans (Note 15)	**(1,280,470)**	(680,250)
Net cash provided (used) by financing activities	**57,287,731**	(70,269,672)
NET INCREASE IN CASH	**34,418,773**	(33,093,925)
CASH AT BEGINNING OF YEAR	**4,572,214**	37,666,139
CASH AT END OF YEAR	**₱ 38,990,987**	₱4,572,214

See accompanying Notes to Financial Statements.

1. Company Information

CARD Leasing and Finance Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) and started commercial operations on January 10, 2013. The main purpose of the Company is to extend credit facilities to consumer and to industrial, commercial or agricultural enterprises by direct lending or by discounting or factoring commercial papers or account receivables, or by buying and selling contracts without quasi-banking activities. Included in its secondary purpose is to purchase, acquire, own, sell and convey properties or to engage in general trading activities and perform business support services which would help its clients in their business needs, such as printing of corporate identification cards and business forms.

The Company's principal place of business is at M.L. Quezon St., City Subdivision, San Pablo City, Laguna.

Based on the provisions of the Revised Corporation Code of the Philippines or RA 11232, the Company has a perpetual existence.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis and are presented in Philippine peso (₱), the Company's functional and presentation currency. All values are rounded to the nearest peso unless otherwise indicated.

Statement of Compliance
The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2022. The adoption of the new and amended standards and interpretations did not have any impact on the financial statements unless otherwise indicated.

- 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.

- Amendments to PAS 16, *Property, 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.

- 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.

- *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 in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 percent' 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.

Summary of Significant Accounting Policies

<u>Current versus Noncurrent Classification</u>
The Company presents assets and liabilities in the 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 period; or
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in the normal operating cycle;
- Held primarily for the purpose of trading;
- Due to be settled within twelve months after the reporting period; or
- Not subject to unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

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

Fair Value Measurement
The Company initially measures its financial instruments and nonfinancial assets at fair value. The fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 4. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the 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 reassessing 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 (see Note 4).

Cash
Cash includes cash on hand and in banks. Cash in banks represent current and savings deposits that earn interest at the respective bank deposit rates and are subject to insignificant risk of changes in value.

Financial Instruments - Initial Recognition
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of recognition
With the exception of loans to customers, the Company recognizes financial instruments in the statement of financial position on the trade date, i.e., when the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date. Loans and advances to customers are recognized when funds are transferred to the customers' accounts.

Initial measurement of financial instruments
The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described below. All financial instruments are initially recognized at fair value, except for financial assets and liabilities at fair value through profit or loss (FVPL), where transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for the Day 1 profit or loss, as described below.

Day 1 profit or loss
Where the transaction price of the instrument is different from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit or loss) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where data are not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing Day 1 profit or loss.

Measurement categories of financial assets and liabilities
The Company classifies all of its financial assets at initial recognition based on the business model for managing the assets and the financial asset's contractual terms. The Company then subsequently measures these financial assets at amortized cost, at fair value through other comprehensive income (FVOCI) or at FVPL.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading derivative instruments or the fair value designation is applied.

Financial Instruments per Financial Statement Line

i. *Cash in banks, Receivables and Security deposits*

The Company measures Cash in banks, Receivables (which include Receivables financed, Finance lease receivables and Other receivables), Security deposits included under 'Other current assets', and other financial assets at amortized cost only 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.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- the expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

Subsequent measurement

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 profit or loss when the asset is derecognized, modified or impaired.

Details of these financial assets at amortized cost as of December 31, 2022 and 2021 are disclosed in Notes 6 and 7.

ii. *Financial assets at FVPL*
Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Company has chosen to designate as at FVPL at initial recognition, are classified and measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Company designates an equity investment that is not held for trading as at FVOCI at initial recognition.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

The Company does not have financial assets at FVPL as of December 31, 2022 and 2021.

iii. *Financial assets at FVOCI (debt instruments)*
The Company classifies and measures debt instruments at FVOCI when both of the following conditions are met:

- the instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset meet the SPPI test

FVOCI debt instruments are subsequently measured at fair value with gains and losses being recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

The Company does not have financial assets at FVPL as of December 31, 2022 and 2021.

iv. *Financial assets at FVOCI (equity instruments)*
Upon initial recognition, the Company may make an irrevocable election (on an instrument-by-instrument basis) to classify equity investments as at FVOCI when they meet the definition of equity under Philippine Accounting Standard 32, *Financial Instruments: Presentation*, and are not held for trading.

These are subsequently measured at fair value with gains and losses due to changes in fair value recognized in OCI. Such gains and losses are never recycled to profit or loss. Dividends from these investments are recognized in profit or loss when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

As of December 31, 2022 and 2021, all of the Company's unquoted equity investments have been designated to be measured at FVOCI. Details of these investments are in Note 8.

v. *Trade and other payables (except Withholding tax payable), Loans payable and Lease deposits*
After initial measurement, the Company measures its 'Trade and other payables' (except tax-related payables), 'Loans payable' and 'Lease deposits' at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR.

<u>Impairment of financial Assets</u>
The Company recognizes an allowance for expected credit losses (ECLs) for all loans and other debt financial assets not held at FVPL. Equity instruments are not subject to impairment under PFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the 'lifetime ECL'), unless there has been no significant increase in credit risk (SICR) since origination, in which case, the allowance is based on the 12-months' ECL (the '12-month ECL').

The 12-month ECL represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after reporting date. Both lifetime ECL and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument has experienced a SICR since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company groups its financial instruments into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Company recognizes a 12-month ECL for Stage 1 financial instruments. Stage 1 instruments also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Company recognizes a lifetime ECL for Stage 2 financial instruments. Stage 2 instruments also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

The probability of default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio, adjusted for forward-looking factors specific to the debtors and the economic environment.

The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

The loss given default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Reclassification of Financial Assets and Liabilities

The Company does not reclassify its financial assets after their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

Modification of financial assets

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

The Company considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Company considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered “solely payment for principal and interest”

The Company also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Company considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired.

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

Inventories
Costs of inventories include all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The Company's inventories are accounted for in a first-in, first-out basis.

Inventories are recognized as expenses when sold. The Company shall recognize the carrying amount of these inventories as expenses in the period in which the related revenue is recognized.

Value-Added Tax (VAT)
Sales, related expenses, assets, and liabilities are recognized net of the amount of VAT except:

- where the VAT incurred on the purchase of an asset or service 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 part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

Equipment Held for Lease and Property and Equipment
Equipment held for lease and property and equipment are carried at cost less accumulated depreciation, and any impairment in value. The initial cost of equipment held for lease and property and equipment is comprised of purchase price and any directly attributable costs of preparing the asset for its intended use. Expenditures incurred after the items of equipment held for lease or property and equipment have been put into operation, such as repairs and maintenance, are charged against the statements of income. In situations where it can be clearly demonstrated that the

expenditures have resulted in an increase in the future benefits expected to be obtained from the use of an item of equipment held for lease or property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of the asset.

Depreciation is calculated using the straight-line method over the estimated useful life (EUL) of five (5) years for transportation vehicles and three (3) years for computers and other equipment of equipment held for lease and property and equipment.

The depreciation method and the EUL of the equipment held for lease and property and equipment are reviewed periodically to ensure that the period and method used are consistent with the expected pattern of economic benefits from such assets.

When equipment held for lease or property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the accounts, and any resulting gain or loss is credited to or charged against the statement of income.

Investment Properties

The company held the property (land and building including improvements) to earn rentals or for capital appreciation or both in accordance with PAS 40. Investment properties are measured initially at cost, including transaction costs. Investment property purchased is measured at cost which includes the purchase price and any directly attributable cost such as professional fees, property transfer taxes and other transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under ‘Investment properties’ upon either: a) entry of judgment in case of judicial foreclosure; b) execution of sheriff’s certificate of sale in case of extra-judicial foreclosure; or c) notarization of the deed of dacion in case of payment in kind (dacion en pago). Subsequent to initial recognition, investment properties, except land, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized under ‘Miscellaneous income’ in the statement of income.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the period of retirement or disposal.

Depreciation and amortization is calculated on a straight-line basis using the following estimated useful lives (EUL) from the time of acquisition of the investment properties:

	Years
Buildings	5-10
Buildings improvement	3

The assets’ residual value, useful life and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortizations are consistent with the expected pattern of economic benefits from items of investment properties.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against income in the year in which the costs are incurred.

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

Impairment of Non-financial Assets
At each reporting date, the Company assesses whether there is any indication of impairment of inventories, input value added tax, equipment held for lease, property and equipment, intangible assets, investment properties or other noncurrent assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes an estimate of the recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's value in use or its fair value less costs to sell.

The fair value less costs to sell is the amount of obtainable from the sale of an asset in an arm's length transaction less cost to sell while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is charged against income in the year in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

Equity
Capital stock
Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Subscriptions receivable pertains to uncollected portion of subscribed stocks. The Company accounted for the subscription receivable as a contra equity account, otherwise such is presented under current asset if collectible within the year.

Retained Earnings
Retained earnings represent cumulative balance of periodic net income or loss, dividend distributions (if any) to the shareholders, effect of changes in accounting policy and all other capital adjustments.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from retained earnings when the obligation to pay is established. Cash dividends on common shares are recognized when approved by the Board of Directors (BOD) of the Company. In the case of stock dividends, approval of both the BOD and shareholders are required before they are recognized.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements.

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

Unearned revenue represents revenues collected but not yet earned as of the reporting date

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized as incurred.

The Company has a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligation in the contract
- Recognize revenue when (or as) the entity satisfies a performance obligation

The following specific recognition criteria must also be met before revenue is recognized:

Rental and finance income
Leasing income pertains to income from operating and finance leases. Income from operating lease (rental income) is recognized on a straight-line basis over the lease term.

For finance lease, the excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of equipment at the time the lease is terminated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Interest income
Interest income pertains to interest on receivables financed and cash in banks. Interests on receivables financed are included in the face value of the receivables with a corresponding credit to the ‘Unearned income’ account. This is amortized to income over the term of the financing agreement using the effective interest method.

Interest income from cash in banks are recognized as it accrues, taking into account the effective yield of the asset.

Sales
Sales are recognized when goods have been completely delivered to or received by the customer.

Miscellaneous income
Miscellaneous income pertains to gain/loss from disposal of assets which is the difference between the fair value of the asset and the carrying amount of asset given up.

Cost and Expense Recognition
Costs and expenses are recognized in the statement of 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. Costs and expenses are recognized in the statement of income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Interest Expense
Interest expense for all interest-bearing financial liabilities is recognized in 'interest expense' in the statements of income using the EIR of the financial liabilities to which they relate.

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

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

Right-of-use assets
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying is available for use) as part of Property and Equipment. Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, which ranges from 1 to 3 years. Right-of-use assets are also subjected to the impairment policy on non-financial assets.

Lease liabilities
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do

not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payment resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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

Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Retirement Benefits
The Company operates under defined benefit retirement plan and hybrid retirement plan which require contributions to be made to separately administered funds.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit method.

Movements of the retirement costs comprise the following:
- service cost;
- net interest on the net defined benefit liability or asset; and
- remeasurements of net defined benefit liability or asset.

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

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

Remeasurements comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the reporting date is recognized for services rendered by employees up to the reporting date.

<u>Income Taxes</u>
Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carry forward of unused tax credits from excess MCIT over RCIT and unused NOLCO can be utilized. Deferred tax assets or liabilities, however, are not recognized when they arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting income nor taxable income. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

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

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

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

Current tax and deferred tax relating to items recognized in equity are recognized in OCI.

Provisions and Contingencies

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Events after the Reporting Date

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

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements.

Effective beginning on or after January 1, 2023

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

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*

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

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

3. Significant Accounting Judgments and Estimates

The preparation of the Company's financial statements in compliance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and notes to financial statements. In preparing the Company's financial statements, management has made its best judgments and estimates relating to certain amounts, giving due consideration to materiality. The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from these estimates, and the effect of any change in estimates will be reflected in the Company's financial statements when they become reasonably determinable.

Accounting estimates and judgments 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.

<u>Judgment</u>
In the process of applying the Company's accounting policies, management has made the following judgment which has significant effect on the amounts recognized in the financial statements:

Accounting for leases as a lessor
Operating lease
The Company has entered into leases of transportation and computer equipment, and other equipment under 'Equipment held for lease'. The Company has determined that it has retained all the significant risks and rewards of ownership of these properties as the present value of the minimum lease payments does not cover substantially the fair value of the leased assets (see Note 9).

Finance lease
The Company has entered into finance lease as a lessor. The Company has determined that it has transferred all the significant risks and rewards of ownership of these properties which are leased out under finance leases (see Note 18).

<u>Estimates</u>
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustment to the carrying amounts in the statement of financial position within the next financial year are described below:

a. Impairment of financial assets
The Company maintains an allowance for impairment losses based on the result of the individual and collective assessment. The Company performs collective impairment by grouping exposures into smaller homogeneous portfolios based on a combination of borrower and account characteristics. Accounts with similar facility are pooled together for calculating provisions based on the ECL models.

Generally, the Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on an agreed settlement date, or request for moratorium. In particular, judgments and estimates by management are required in determining the following:

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset's probability of default as well as the Company's forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes;
- sufficiency and appropriateness of data used, and relationships assumed in building the components of the Company's expected credit loss models;
- measuring the exposure at default for unused commitments on which an expected credit loss should be recognized and the applicable loss rate

The related allowance for credit losses of financial assets are disclosed in Note 7.

b. *EUL of equipment held for lease*
The Company reviews annually the EUL of equipment held for lease based on the period over which these are expected to be available for use. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the EUL of these assets would increase recorded depreciation and decrease the carrying values.

The accounting policy for the EUL of equipment held for lease is disclosed in Note 2, while disclosures about this account are in Note 10.

c. *Recognition of deferred tax assets*
Deferred tax assets are recognized for all temporary differences to the extent that it is probable that the taxable profit will be available against which the temporary differences can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. The recognized deferred tax assets are disclosed in Note 24.

d. *Present value of retirement obligation*
The cost of defined benefit plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to complexity of the valuation, the underlying assumptions and long-term nature of these plans are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected benefit payout as at reporting date and the extrapolated maturities corresponding to expected duration of the defined benefit obligation. Salary projection rate is based on the inflation rate and expected average future salary increase rate of the employee, while the mortality rate is based on the 2001 Commissioners Standard Ordinary table. While the Company believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits related obligations.

The present value of net defined benefit asset and significant assumptions used in measuring such are disclosed in Note 23.

4. Fair Value Measurement

The Company uses a hierarchy for determining and disclosing the fair value of its assets and liabilities (see accounting policy on Fair Value Measurement).

Cash, current portion of receivables financed and lease receivables, advances, current portion of loans payable and lease deposits, accrued expenses and other payables
The fair values of cash, current portion of receivables financed and lease receivables, advances, current portion of loans payable and lease deposits, accrued expenses and other payables approximate their carrying values due to their short-term maturities.

Investment properties
The fair values of the Company's investment properties have been determined based on valuations made by independent appraiser based on the recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

The following table summarizes the carrying amounts and the fair values by level of the fair value hierarchy of the Company's assets and liabilities as at December 31:

	2022	
	Carrying value*	**Fair value measurement using significant unobservable inputs (Level 3)**
Assets for which fair values are disclosed:		
Financial assets		
Receivables		
Receivables financed	**₱117,555,972**	**₱277,701,590**
Lease receivables	**1,199,995**	**2,529,609**
	118,755,967	**280,231,199**
Nonfinancial assets		
Investment properties	**29,551,987**	**34,569,100**
	₱29,551,987	**₱34,569,100**
Liabilities for which fair values are disclosed:		
Financial liabilities		
Loans payable	**₱66,015,458**	**₱75,077,327**
Lease deposits	**10,971,869**	**8,168,005**
	₱76,987,327	**₱83,245,332**

**Amounts pertains to noncurrent assets and liabilities.*

	2021	
	Carrying value*	Fair value measurement using significant unobservable inputs (Level 3)
Assets for which fair values are disclosed:		
Financial assets		
Receivables		
Receivables financed	₱178,581,997	₱277,701,590
Lease receivables	1,813,277	2,529,609
	180,395,274	280,231,199
Nonfinancial assets		
Investment properties	30,074,654	34,569,100
	₱30,074,654	₱34,569,100
Liabilities for which fair values are disclosed:		
Financial liabilities		
Loans payable	₱75,077,327	₱75,077,327
Lease deposits	8,168,005	8,168,005
	₱83,245,332	₱83,245,332

**Amounts pertains to noncurrent assets and liabilities.*

Description of significant unobservable inputs to valuation follow:

Account	Valuation Technique	Significant Unobservable Input	Inputs 2022	2021
Receivables financed	Discounted cash flow	Incremental lending rate	**6.00%-48.00%**	8.00%-51.71%
Lease receivables	Discounted cash flow	Incremental lending rate	**8.00%-20.00%**	14.13%-24.91%
Investment properties - land	Market data approach	Location, size, shape, utility/neighborhood, improvements and time element	**₱5,200 to ₱32,240 per square meter**	₱5,200 to ₱32,240 per square meter
Loans payable	Discounted cash flow	Risk premium rate	**2.50%-6.00%**	5.15%-6.80%
Lease deposits	Discounted cash flow	Risk premium rate	**5.43%-5.88%**	5.43%-5.88%

Market data approach is a process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.

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

5. Financial Risk Management Objectives and Policies

In the course of the business cycle, the Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

In line with the Center for Agricultural and Rural Development Mutually Reinforcing Institutions' (CARD MRI) mission of "*providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families*", risk management framework of the Company involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks.

The BOD is responsible for monitoring the Company's implementation of risk management policies and procedures and for reviewing the adequacy of risk management framework in relation to the risks faced by the Company. Risk Management of the Company is strengthened in conjunction with the Internal Audit (IA) functions of CARD MRI Group. IA undertakes both regular audit examination and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BOD.

Credit Risk

Credit risk is the risk of financial loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company manages credit risk by assessing the creditworthiness of its counterparties. The Company continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due date or in the future.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate.

Maximum exposure to credit risk after collateral held or other credit enhancements

Except for receivables financed, the maximum exposure of the Company's financial instruments is equivalent to the carrying values as reflected in the statements of financial position and related notes. The table below shows the analysis of the maximum exposure to credit risk, net of allowance for credit losses, of receivables financed as at December 31, 2022 and 2021:

	2022			
	Maximum Exposure	**Fair Value of Collateral**	**Financial Effect of Collateral or Credit Enhancement**	**Net Exposure**
Receivables financed	**₱340,731,016**	**₱115,860,000**	**₱106,140,441**	**₱234,590,575**

	2021			
	Maximum Exposure	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
Receivables financed	₱256,477,066	₱270,015,180	₱56,524,210	₱199,952,856

As at December 31, 2022 and 2021, credit enhancement for receivables financed consists of real estate mortgage.

As at December 31, 2022 and 2021, the Company has no financial assets with rights to offset in accordance with PAS 32. There are also no financial assets that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with the offsetting disclosure requirements of PFRS 7.

Concentration of credit risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. As at December 31, 2022 and 2021, the Company's cash in banks and receivables are concentrated to financial intermediaries and corporate and individual borrowers, respectively.

Credit quality per class of financial assets
The credit quality of financial assets is monitored and managed based on the credit standing and history.

High grade - These are Company deposits, receivables or advances which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the securities on the receivables are readily enforceable.

Standard grade - These are Company deposits, receivables or advances where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

The following tables illustrate the Company's credit exposures on receivables financed and lease receivables as at December 31, 2022 and 2021:

	2022			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Receivables financed	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**₱–**	**₱–**	**₱–**	**₱–**
Standard grade	**334,517,050**	–	–	**334,517,050**
Past due but not impaired	–	**3,706,130**	–	**3,706,130**
Past due and impaired	–	–	**5,895,146**	**5,895,146**
Gross carrying amount	**₱334,517,050**	**₱3,706,130**	**₱5,895,147**	**₱344,118,326**

	2021			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Receivables financed	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Neither past due nor impaired				
High grade	₱–	₱–	₱–	₱–
Standard grade	253,908,494			253,908,494
Past due but not impaired	–	869,651		869,651
Past due and impaired	–	–	2,898,057	2,898,057
Gross carrying amount	₱253,908,494	₱869,651	₱2,898,057	₱257,676,202

	2022			
	ECL Staging			
	Stage 1	**Stage 2**	**Stage 3**	
Lease receivables	12-month ECL	Lifetime ECL	Lifetime ECL	**Total**
Neither past due nor impaired				
High grade	**₱–**	**₱–**	**₱–**	**₱–**
Standard grade	**2,589,737**	–	–	**2,589,737**
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	–	–
Gross carrying amount	**₱2,589,737**	**₱-**	**₱–**	**₱2,589,737**

	2021			
	ECL Staging			
	Stage 1	Stage 2	Stage 3	
Lease receivables	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Neither past due nor impaired				
High grade	₱	₱–	₱–	₱
Standard grade	2,178,312	–	–	2,178,312
Past due but not impaired	–		–	
Past due and impaired	–	–	–	–
Gross carrying amount	₱2,178,312	₱-	₱–	₱2,178,312

As at December 31, 2022 and 2021, Company's receivables that are past due for more than 90 days are considered impaired.

The following tables show the total amount of receivables from members that are contractually past due but not considered as impaired per delinquency bucket as at December 31, 2022 and 2021:

	December 31, 2022				
	Less than 31 Days	**31 to 60 Days**	**61 to 90 Days**	**More than 90 days**	**Total**
Receivables financed	**₱–**	**₱3,427,849**	**₱278,281**	**₱–**	**₱3,706,130**

	December 31, 2021				
	Less than 31 Days	31 to 60 Days	61 to 90 Days	More than 90 days	Total
Receivables financed	₱–	₱16,871	₱184,329	₱668,451	₱ 869,651

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

Liquidity risk is managed by the Company through holding sufficient liquid assets and appropriate assessment to ensure short-term funding requirements are met and by ensuring the high collection performance at all times. In addition, the Company maintains sufficient liquid assets to take advantage of favorable investment opportunities when it arises.

In 2022, the Company has unused credit line with CARD SME Bank, Inc. (CSMEB), Bank of the Philippine Islands (BPI), Land Bank of the Philippines (LBP), and CARD MERP amounting to ₱15.79 million, ₱50.18 million, ₱160.37 million and ₱123.15 million, respectively. In 2021, the Company has unused credit line with CARD MERP and LBP amounting to ₱70.00 million and ₱69.30 million, respectively.

The tables below summarize the maturity profile of the financial instruments of the Company based on contractual undiscounted cash flows:

	2022					
	On demand	**Due within 1 month**	**1 to 3 months**	**4 to12 months**	**Beyond 1 year**	**Total**
Financial Assets						
Cash in banks	**₱38,980,987**	**₱–**	**₱–**	**₱–**	**₱–**	**₱38,980,987**
Receivables:						
Finance lease receivable*	–	–	**27,997**	**428,517**	**2,133,223**	**2,589,737**
Receivables financed*	**171,176**	**4,126,772**	**7,603,149**	**111,549,857**	**220,667,373**	**344,118,327**
Receivables from related parties	–	**12,987**	–	–	–	**12,987**
Accrued interest receivables	–	**3,868**	**8,388**	**417,362**	**290,352**	**719,790**
Accounts receivables	–	**1,927,332**	–	–	–	**1,927,332**
Security deposit	–	–	–	**26,200**	–	**26,200**
Total Financial Assets	**39,152,163**	**6,070,959**	**7,639,534**	**112,421,936**	**223,090,948**	**388,375,360**
Financial Liabilities						
Trade and other payables:						
Trade payables	–	**1,649,542**	–	–	–	**1,649,542**
Accrued expenses	–	**1,616,367**	–	–	–	**1,616,367**
Accrued interest payable	–	**1,274,296**	–	–	–	**1,274,296**
Unearned Rent Income	**96,108**	**26,796**	**70,776**	**302,891**	**889,120**	**1,385,691**
Lease deposits*	**3,034,451**	**441,742**	**955,220**	**9,626,175**	**11,119,682**	**25,177,270**
Loans payable*	–	–	**58,409,513**	**145,237,692**	**66,875,000**	**270,522,205**
Total Financial Liabilities	**3,130,559**	**5,008,743**	**59,435,509**	**155,166,758**	**78,883,802**	**301,625,371**
Net Financial Assets (Liabilities)	**₱36,021,604**	**₱1,062,216**	**(₱51,795,975)**	**(₱42,744,822)**	**₱144,207,146**	**₱86,749,989**

**Includes undiscounted future interest*

	2021					
	On demand	Due within 1 month	1 to 3 months	4 to12 months	Beyond 1 year	Total
Financial Assets						
Cash in banks	₱4,562,214	₱–	₱–	₱–	₱–	₱4,562,214
Receivables:						
Finance lease receivable*	457	109,919	272,431	1,027,553	1,092,431	2,502,791
Receivables financed*	1,155,905	16,018,965	37,148,942	131,343,214	119,060,216	304,727,242
Receivables from related parties	–	578,305	–	–	–	578,305
Accrued interest receivables	–	1,330,878	–	–	–	1,330,878
Accounts receivables	–	5,620,814	–	–	–	5,620,814
Security deposit	–	–	–	26,200	–	26,200
Total Financial Assets	5,718,576	23,658,881	37,421,373	132,396,967	120,152,647	319,348,444
Financial Liabilities						
Trade and other payables:						
Trade payables	–	3,226,903	–	–	–	3,226,903
Accrued expenses	–	1,463,320	–	–	–	1,463,320
Accrued interest payable	–	1,256,243	–	–	–	1,256,243
Payable to related parties	–	416,691	–	–	–	416,691
Unearned Rent Income			35,523	542,824	565,846	1,144,193
Lease deposits*	3,039,237	3,099,736	6,201,996	20,284,254	8,733,851	41,359,074
Loans payable*	–	–	3,271,883	23,090,757	142,878,156	169,240,796
Total Financial Liabilities	3,039,237	9,462,893	9,509,402	43,917,835	152,177,853	218,107,220
Net Financial Assets (Liabilities)	₱2,679,339	₱14,195,988	₱27,911,971	₱88,479,132	(₱32,025,206)	₱101,241,224

**Includes undiscounted future interest*

6. Cash

This account consists of:

	2022	2021
Petty cash	**₱10,000**	₱10,000
Cash in banks	**38,980,987**	4,562,214
	₱38,990,987	₱4,572,214

Cash in banks consist of current and savings peso deposit accounts. The Company earned annual interest rates in its savings peso deposit accounts ranging from 0.05% to 1.25% in 2022 and 0.05% to 1.50% in 2021.

Interest income earned from cash in banks amounted to ₱0.07 million and ₱0.21 million in 2022 and 2021, respectively (Note 20).

7. Receivables

This account consists of:

	2022	2021
Receivables financed	**₱400,528,217**	₱304,727,242
Unearned finance income	**(56,409,890)**	(47,051,040)
	344,118,327	257,676,202
Finance lease receivables (Note 25)	**2,996,563**	2,502,791
Unearned lease income	**(406,826)**	(324,479)
	2,589,737	2,178,312
Other receivables		
Receivable from related parties (Note 25)	**12,987**	356,001
Accounts receivable	**1,927,332**	5,620,814
Accrued interest receivables	**719,970**	1,330,878
	2,660,289	7,307,693
	349,368,353	267,162,207
Less: Allowance for expected credit losses	**(3,387,310)**	(1,201,318)
Unamortized discount on receivables financed	**(252,445)**	(252,445)
	₱345,728,598	₱265,708,444

Receivables financed consist of loans to employees of the Company's related parties. The effective interest rates in financing the receivables range from 8.68% to 60.23% in 2022 and 2021.

Unearned finance income is the difference between the gross investment and the net investment in the lease.

Unearned lease income pertains to rental payments collected in advance but has not yet been recognized as income.

Interest income earned from receivables financed amounted to ₱40.34 million and ₱35.10 million in 2022 and 2021, respectively (Note 20).

Finance lease receivables pertain to transportation vehicles, computer equipment and gadgets.

Accrued interest receivables come from nominal interest of receivables financed.

Accounts receivables include receivables on shared expenses from other CARD MRI institutions, receivable from staffs of CARD MRI institutions, sales of supplies, and accrued rent income on operating lease.

An analysis of receivables as at December 31, 2022 and 2021 are presented as follows:

	2022			
	Receivables financed	**Finance lease receivables**	**Other receivables**	**Total**
Receivables	**₱400,528,217**	**₱2,996,563**	**₱2,660,289**	**₱406,185,069**
Less: Unearned income	**56,409,890**	**406,826**	–	**56,816,716**
	344,118,327	**2,589,737**	**2,660,289**	**349,368,353**
Less: Allowance for expected credit losses	**3,387,310**	–	–	**3,387,310**
Unamortized discount	**252,445**	–	–	**252,445**
	₱340,478,572	**₱2,589,737**	**₱2,660,289**	**₱345,728,598**
Current portion	**₱222,922,600**	**₱1,389,742**	**₱2,660,289**	**₱226,972,631**
Noncurrent portion	**₱117,555,972**	**₱1,199,995**	**₱–**	**₱118,755,967**

	2021			
	Receivables financed	Finance lease receivables	Other receivables	Total
Receivables	₱304,727,242	₱2,502,791	₱7,307,693	₱314,537,726
Less: Unearned income	47,051,040	324,479	–	47,375,519
	257,676,202	2,178,312	7,307,693	267,162,207
Less: Allowance for expected credit losses	1,199,136	2,182	–	1,201,318
Unamortized discount	252,445	–	–	252,445
	₱256,224,621	₱2,176,130	₱7,307,693	₱265,708,444
Current portion	₱156,747,457	₱1,204,830	₱7,307,693	₱165,259,980
Noncurrent portion	₱99,477,164	₱971,300	₱–	₱100,448,464

The reconciliation of gross investment in lease receivables and the present value of minimum lease payments receivable as at December 31, 2022 and 2021 are presented as follows:

	2022		
	Not later than 1 year	**Later than 1 year up to 5 years**	**Total**
Gross investment	**₱1,660,678**	**₱1,335,884**	**₱2,996,562**
Less: Unearned income	**270,937**	**135,888**	**406,825**
Net investment	**1,389,741**	**1,199,996**	**2,589,737**
Less: Allowance for expected credit losses	–	–	–
Net investment	**₱1,389,742**	**₱1,199,996**	**₱2,589,737**

	2021		
	Not later than 1 year	Later than 1 year up to 5 years	Total
Gross investment	₱1,426,214	₱1,076,577	₱2,502,791
Less: Unearned income	219,202	105,277	324,479
Net investment	1,207,012	971,300	2,178,312
Less: Allowance for expected credit losses	2,182	–	2,182
Net investment	₱1,204,830	₱971,300	₱2,176,130

An analysis of changes in the gross carrying amount, net of unearned income and the corresponding ECL allowances follows:

	2022			
	ECL Staging			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Gross carrying amount and accrued interest receivables as at January 1, 2022	**₱263,394,499**	**₱869,651**	**₱2,898,057**	**₱267,162,207**
New financial assets originated or purchased	**333,108,925**	–	–	**333,108,925**
Transfers:				
Transfer from Stage 1 to Stage 2	**(477,848)**	**477,848**	–	–
Transfer from Stage 1 to Stage 3	**(5,917,200)**	–	**5,917,200**	–
Movements in outstanding balances	**(52,854,179)**	–	–	**(52,854,179)**
Financial assets derecognized during the period	**(185,474,393)**	**875,452**	**(3,469,599)**	**(188,068,540)**
Write-offs and other movements	**(6,532,994)**	**(674,461)**	**(2,772,607)**	**(9,980,062)**
Gross carrying amount as at December 31, 2022	**₱345,246,810**	**₱1,548,490**	**₱2,573,053**	**₱349,368,353**

	2021			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount and accrued interest receivables as at January 1, 2021	₱204,284,564	₱2,929,403	₱2,920,373	₱210,134,340
New financial assets originated or purchased	252,774,805	–	–	252,774,805
Transfers:				
Transfer from Stage 1 to Stage 2	(869,651)	869,651	–	–
Transfer from Stage 1 to Stage 3	(7,179,567)	–	7,179,567	–
Financial assets derecognized during the period	(185,615,652)	(2,929,403)	(2,682,099)	(191,227,154)
Write-offs and other movements	–	–	(4,519,784)	(4,519,784)
Gross carrying amount as at December 31, 2021	₱263,394,499	₱869,651	₱2,898,057	₱267,162,207

	2022			
	ECL Staging			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Loss allowance at January 1, 2022	**₱814,775**	**₱12,566**	**₱373,977**	**₱1,201,318**
Movements with P&L impact				
New financial assets originated or purchased	**2,461,255**	–	–	**2,461,255**
Transfers:				
Transfer from Stage 1 to Stage 2	**(1,485)**	**1,485**	–	–
Transfer from Stage 1 to Stage 3	**(17,204)**	–	**17,204**	–
Changes in PDs/LGDs/EADs	**168,733**	**(189,667)**	**290,506**	**269,572**
Financial assets derecognized during the period	**389,737**	**1,910**	**9,681**	**401,328**
Total net P&L charge during the period	**2,698,872**	**201,808**	**90,993**	**2,991,673**
Other movements without P&L impact				
Write-offs and other movements	**20,686**	**10,656**	**364,295**	**395,637**
Total movements without P&L impact	**20,686**	**10,656**	**364,295**	**395,637**
Loss allowance at December 31, 2022	**₱2,719,558**	**₱212,463**	**₱455,288**	**₱3,387,310**

	2021			
	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loss allowance at January 1, 2021	₱2,325,333	₱170,283	₱302,453	₱2,798,069
Movements with P&L impact				
New financial assets originated or purchased	886,930	–	–	886,930
Transfers:				
Transfer from Stage 1 to Stage 2	(12,566)	12,566	–	–
Transfer from Stage 1 to Stage 3	(329,265)	–	329,265	–
Changes in PDs/LGDs/EADs	(967,293)	(120,329)	4,399,198	3,311,576
Financial assets derecognized during the period	(1,088,364)	(49,954)	(137,155)	(1,275,473)
Total net P&L charge during the period	(1,510,558)	(157,717)	4,591,308	2,923,033
Other movements without P&L impact				
Write-offs and other movements	–	–	(4,519,784)	(4,519,784)
Total movements without P&L impact	–	–	(4,519,784)	(4,519,784)
Loss allowance at December 31, 2021	₱814,775	₱12,566	₱373,977	₱1,201,318

Movements in the allowance for ECLs for the year ended December 31, 2022 and 2021 follow:

	2022		
	Receivables financed	**Lease receivables**	**Total**
Balance at beginning of year	**₱1,199,136**	**₱2,182**	**₱1,201,318**
Provision or (reversal) during the year	**12,614,048**	**(2,182)**	**12,611,866**
Write-off during the year	**(10,425,874)**	**–**	**(10,425,874)**
Balance at end of year	**₱3,387,310**	**₱–**	**₱3,387,310**
Current portion	**₱2,719,558**	**₱–**	**₱2,719,558**
Noncurrent portion	**₱667,752**	**₱–**	**₱667,752**

	2021		
	Receivables financed	Lease receivables	Total
Balance at beginning of year	₱2,729,597	₱68,472	₱2,798,069
Provision or (reversal) during the year	2,981,661	(58,628)	2,923,033
Write-off during the year	(4,512,122)	(7,662)	(4,519,784)
Balance at end of year	₱1,199,136	₱2,182	₱1,201,318
Current portion	₱1,160,887	₱2,182	₱1,163,069
Noncurrent portion	₱38,249	₱–	₱38,249

Net provision/reversal reflected in the statement of income is as follows:

	2022	2021
Provision for credit losses	**₱12,611,866**	₱2,923,033
Bad debt recovery	**(874,465)**	(13,059,102)
Net provision/reversal in credit losses	**₱11,737,401**	(₱10,136,069)

Section 9(f) of Republic Act (RA) No. 8556, also known as *The Financing Company Act of 1998,* requires that 100% allowance for credit losses should be set up for the following:

a. Clean loans and advances past due for a period of more than six (6) months;
b. Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50.00%, without the borrower offering additional collateral for the loans;
c. Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
d. When borrower and his co-maker or guarantor are insolvent, or where their whereabouts are unknown, or their earnings power is permanently impaired;
e. Accrued interest receivable that remain uncollected after six months from the maturity date of such loans to which it accrues; and
f. Accounts receivable past due for 361 days or more.

The Company is in compliance with the provisioning requirements of RA No. 8556.

Modification of Loans and Receivables
On March 25, 2021, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1 Act") was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the enhanced community quarantine (ECQ) period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2021, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), was enacted.

Under the Bayanihan 2 Act, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2021, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

Apart from the above-mentioned, the Company did not offer any additional reliefs to its borrowers/counterparties as a response to the effect of the COVID-19 pandemic.

In 2020, the total modification losses resulting from Bayanihan 1 Act and Bayanihan 2 Act recognized in the statement of comprehensive income under "Interest Income" amounted to ₱2.10 million. The net impact of the loan modification after subsequent accretion of the modified loans amounted to a net loss of ₱1.13 million.

As at December 31, 2022 and 2021, the Company has amortized loan modifications amounting to nil and ₱0.88 million, respectively. It was recognized in the statement of comprehensive income under "Interest Income".

8. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of unquoted equity securities at FVOCI amounting to ₱2.4 million and nil as of December 31, 2022 and 2021, respectively.

These investments have been designated to be measured irrevocably at fair value through other comprehensive income. The management elects to use the FV option of these equity instruments and determined that the Company has no intention to hold these for trading.

Movements of the investment are as follows:

	2022	2021
Beginning balance	**₱–**	₱4,802,300
Acquisitions during the year	**2,520,000**	–
Mark-to-market fair value changes	**(67,825)**	(4,802,300)
Ending balance	**₱2,452,175**	₱–

In 2019, the Company acquired 22,000 shares over ASENSO Tech. Pte. Ltd., a company engaged in finance technology and incorporated under laws of Singapore, for a total consideration of $22,000 with additional investment during 2020 amounting to $11,000 for 11,000 shares. Accordingly, the Company designated this investment to be measured irrevocably at fair value through other comprehensive income. However, in 2020, the Company withdrew its investment for a consideration of $33,000 which was collected in 2021.

In 2019, the Company also acquired 8,045 shares of Veritas Mobile Holdings, Ltd., a company engaged in digital commerce and payment services and with registered office in British Virgin Islands, for a total consideration of $100,000.

In 2022, the Company acquired 252,000 shares of Matapat Holdings, Inc. amounting to ₱2.52 million.

The movements in the unrealized loss on financial assets at FVOCI of the Company follow:

	2022	2021
Balance at January 1	**(₱3,859,608)**	(₱197,890)
Movements taken to OCI during the year:		
Fair value changes during the year	**(67,825)**	(4,802,300)
	(67,825)	(4,802,300)
Income tax effects	**16,956**	1,140,582
Balance at December 31	**(₱3,910,477)**	(₱3,859,608)

9. **Other Current Assets**

This account consists of:

	2022	2021
Prepaid subscription	**₱1,499,990**	₱1,499,990
Prepaid expenses	**76,053**	194,521
Security deposit	**26,200**	26,200
Input VAT	**6,409**	–
	₱1,608,652	₱1,720,711

Prepaid subscription pertains to the 149,999 shares paid by the Company to Matapat Holdings, Inc.

Prepaid expenses pertain to the motorcycle policy insurance of the Company's transportation vehicles held for lease with CARD Pioneer Microinsurance, Inc.

Security deposit pertains to earnest money for the rent with third-party lessors.

10. **Equipment Held for Lease**

The composition of and movements in equipment held for lease follow:

	2022			
	Transportation equipment	**Computer equipment**	**Furniture and fixtures**	**Total**
Cost				
Balance at beginning of year	**₱331,591,899**	**₱211,109,016**	**₱2,302,716**	**₱545,003,631**
Additions	**21,014,643**	**329,377**	**–**	**21,344,020**
Disposals	**(26,728,814)**	**(8,479,897)**	**(840,165)**	**(36,048,876)**
Balance at end of year	**325,877,728**	**202,958,496**	**1,462,551**	**530,298,775**
Accumulated Depreciation				
Balance at beginning of year	**242,997,367**	**204,085,571**	**2,247,407**	**449,330,345**
Depreciation	**38,660,022**	**6,677,556**	**55,308**	**45,392,886**
Disposals	**(26,021,492)**	**(8,479,894)**	**(840,166)**	**(35,341,552)**
Balance at end of year	**255,635,897**	**202,283,233**	**1,462,549**	**459,381,679**
Net Book Value	**₱70,241,831**	**₱675,263**	**₱2**	**₱70,917,096**

	2021			
	Transportation equipment	Computer equipment	Furniture and fixtures	Total
Cost				
Balance at beginning of year	₱344,730,173	₱255,504,319	₱3,319,989	₱603,554,481
Additions	27,271,471	–	–	27,271,471
Disposals	(40,409,745)	(44,395,303)	(1,017,273)	(85,822,321)
Balance at end of year	331,591,899	211,109,016	2,302,716	545,003,631
Accumulated Depreciation				
Balance at beginning of year	237,936,342	219,130,151	3,027,132	460,093,625
Depreciation	43,048,339	29,106,605	227,950	72,382,894
Disposals	(37,987,314)	(44,151,185)	(1,007,675)	(83,146,174)
Balance at end of year	242,997,367	204,085,571	2,247,407	449,330,345
Net Book Value	₱88,594,532	₱7,023,445	₱55,309	₱95,673,286

The refundable lease deposits on equipment held for lease amounted to ₱25.18 million and ₱40.21 million, as of December 31, 2022 and 2021 respectively (Note 16).

The gain on disposal of equipment held for lease included under 'miscellaneous income' in the statements of comprehensive income amounted to ₱4.69 million and ₱3.20 million, in 2022 and 2021, respectively.

The details of depreciation recorded in the statements of comprehensive income follow:

	2022	2021
Equipment held for lease	**₱45,392,886**	₱72,382,894
Investment properties (Note 12)	**522,667**	1,061,000
Property and equipment (Note 11)	**206,348**	554,060
	₱46,121,901	₱73,997,954

11. **Property and Equipment**

The composition of and movements in property and equipment follow:

	2022				
	Transportation equipment	**Printing equipment**	**Computer equipment**	**Furniture and fixtures**	**Total**
Cost					
Balance at beginning of year	**₱1,186,108**	**₱–**	**₱651,392**	**₱140,326**	**₱1,977,826**
Additions	–	–	**298,213**	–	**298,213**
Disposal	**(62,000)**	–	–	–	**(62,000)**
Balance at end of year	**1,124,108**	–	**949,605**	**140,326**	**2,214,039**
Accumulated Depreciation					
Balance at beginning of year	**1,092,892**	–	**361,865**	**71,310**	**1,526,067**
Depreciation	**31,215**	–	**138,835**	**36,298**	**206,348**
Balance at end of year	**1,124,107**	–	**500,700**	**107,608**	**1,732,415**
Net Book Value	**₱1**	**₱–**	**₱448,905**	**₱32,718**	**₱481,624**

	2021				
	Transportation equipment	Printing equipment	Computer equipment	Furniture and fixtures	Total
Cost					
Balance at beginning of year	₱1,203,730	₱1,095,975	₱833,338	₱257,654	₱3,390,697
Additions	62,000	709,111	192,938	54,349	1,018,398
Disposal	(79,622)	(1,805,086)	(374,884)	(171,677)	(2,431,269)
Balance at end of year	1,186,108	–	651,392	140,326	1,977,826
Accumulated Depreciation					
Balance at beginning of year	746,942	1,095,956	592,587	192,355	2,627,840
Depreciation	401,243	3	102,187	50,627	554,060
Disposal	(55,293)	(1,095,959)	(332,909)	(171,672)	(1,655,833)
Balance at end of year	1,092,892	–	361,865	71,310	1,526,067
Net Book Value	₱93,216	₱–	₱289,527	₱69,016	₱451,759

Gain on disposal of property and equipment included under 'miscellaneous income' in the statement of comprehensive income amounted to ₱0.09 million and ₱0.05 million in 2022 and 2021, respectively.

12. Investment Properties

This account consists of foreclosed real estate properties and investments in real estate:

	2022		
	Land	**Buildings and buildings improvement**	**Total**
Cost			
At January 1	**₱26,764,487**	**₱7,150,000**	**₱33,914,487**
Accumulated Depreciation			
Balance at beginning of year	–	**3,839,833**	**3,839,833**
Depreciation	–	**522,667**	**522,667**
Balance at end of year	–	**4,362,500**	**4,362,500**
Net Book Value	**₱26,764,487**	**₱2,787,500**	**₱29,551,987**

	2021		
	Land	Buildings and buildings improvement	Total
Cost			
Balance at beginning of year	₱8,339,2	₱7,150,000	₱15,489,267
Additions	18,425,2	–	18,425,220
Balance at end of year	26,764,4	7,150,000	33,914,487
Accumulated Depreciation			
Balance at beginning of year		2,778,833	2,778,833
Depreciation		1,061,000	1,061,000
Balance at end of year		3,839,833	3,839,833
Net Book Value	₱26,764,4	₱3,310,167	₱30,074,654

Rental income from investment properties included under ‘Miscellaneous income’ amounted to ₱0.27 million and ₱0.17 million in 2022 and 2021, respectively.

There are no investment properties as of December 31, 2022 and 2021 that were pledged as security against liabilities. The fair values of investment properties are disclosed in Note 4.

13. Other Noncurrent Assets

As at December 31, 2022 and 2021, the Company recorded a deferred input VAT amounting to ₱1.63 million and ₱4.87 million related to the unamortized portion of input tax on capital goods purchased with an acquisition cost of which exceeds ₱1.00 million and for use in trade or business shall be spread evenly over the month of acquisition and the 59 succeeding months. If, however, the estimated useful life of the capital good is less than five (5) years, the input VAT thereon shall be spread over such a shorter period.

14. Trade and Other Payables

This account consists of:

	2022	2021
Financial liabilities		
Deposit for stock subscription	**₱21,030,550**	₱–
Trade payables	**1,649,542**	3,226,903
Accrued other expenses	**1,616,367**	1,463,320
Unearned rent income	**1,385,691**	1,144,193
Accrued interest payable (Note 25)	**1,274,296**	1,256,243
Payable to related parties (Note 25)	–	416,691
	26,956,446	7,507,350
Nonfinancial liabilities		
Withholding tax payable	**420,226**	1,319,772
	₱27,376,672	₱8,827,122

Deposit for stock subscription are advance payments from the Company's stockholders for the additional capital. The Company applied in Securities and Exchange Commission (SEC) a capital increase which is still ongoing as of December 31, 2022.

Trade payables are due to suppliers for inventory and other purchases.

Accrued other expenses pertain mainly to accumulated vacation leave, unpaid professional fees, and salaries and wages.

Unearned rent income pertains to the difference between the fair value and the principal amount of lease deposits received.

15. Loans Payable

Loans payable pertain to borrowings availed from CARD MRI Multi-Employer Retirement Plan (MERP), Landbank of the Philippines (LBP), Bank of the Philippine Islands (BPI) and CARD SME Bank, Inc. (CSME) which bear annual interest rates ranging from 2.50% to 6.00% and 4.10% to 6.50% in 2022 and 2021, respectively and have tenor of one (1) year to six (6) years in 2022 and 2021 (Note 25).

An analysis of loans payable is presented as follows:

	2022	2021
Face Value		
Balance at beginning of year	**₱167,984,554**	₱172,573,976
Availments	**255,460,000**	130,700,000
Principal payments	**(152,922,349)**	(135,289,422)
Balance at end of year	**270,522,205**	167,984,554
Net Discount		
Balance at beginning of year	**523,258**	883,258
Availments	**1,626,112**	680,250
Amortization	**(345,642)**	(1,040,250)
Balance at end of year	**1,803,728**	523,258
Carrying Value	**₱268,718,477**	₱167,461,296

The carrying value of loans payable as of December 31, 2022 and 2021 are as follows:

	2022	2021
Current portion	**₱202,703,019**	₱92,383,969
Noncurrent portion	**66,015,458**	75,077,327
	₱268,718,477	₱167,461,296

Interest expense on loans payable amounted to ₱10.11 million and ₱10.24 million in 2022 and 2021, respectively. Unpaid interest as at December 31, 2022 and 2021 amounted to ₱1.27 million and ₱1.26 million, respectively.

16. Lease Deposits

Movements of lease deposits are as follows:

	2022	2021
Balance at beginning of year	**₱40,214,881**	₱53,188,056
Principal payments	**(28,775,748)**	(35,097,931)
Rent deposits during the year	**13,738,137**	20,311,340
Accretion of interest	**–**	1,813,416
Balance at end of year	**₱25,177,270**	₱40,214,881

The carrying value of lease deposits as of December 31, 2022 and 2021 are as follows:

	2022	2021
Current portion	**₱14,205,401**	₱32,046,876
Noncurrent portion	**10,971,869**	8,168,005
	₱25,177,270	₱40,214,881

Lease deposits pertain to rent deposits from operating leases with its related parties with a term of not exceeding 24 months (Note 19).

17. Equity

Capital Stock
As at December 31, 2022 and 2021, the Company's capital stock consist of 1,000,000 issued and outstanding shares of its common stock with par value of ₱100 per share and total amount of ₱100.00 million. These 1,000,000 shares of common stock also comprise the Company's authorized capital stock.

Dividends
In 2022 and 2021, the Company declared and recorded dividends below:

	Cash dividends		
Date of declaration	Per share	Total amount	Date of record
September 13, 2022	₱35.00	₱35.00 million	September 14, 2022
April 9, 2022	30.00	30.00 million	April 11, 2022
December 10, 2021	30.00	30.00 million	December 15, 2021
March 30, 2021	35.00	35.00 million	March 31, 2021

Capital Management
The Company manages its capital structure and appropriately effects adjustments according to the changes in economic conditions and the risk level it recognizes at every point of time in the course of its business operations. In order to maintain or adjust for good capital structure, the Company carefully measures the amount of dividend payment to shareholders, call payment due from the capital subscribers or issue capital securities as necessary.

The Company considers its capital stock as capital as of year-end. Also, the Company has pending application in Securities and Exchange Commission (SEC) for a capital increase.

Under Section 6 of RA No. 8556, financing companies shall be organized in the form of stock corporations at least forty percent (40.00%) of which is owned by the citizens of the Philippines and shall have a paid-up capital of not less than ₱10.00 million in case the financing company is located in Metro Manila and other first class cities, ₱5.00 million in other classes of cities and ₱2.50 million in municipalities. As at December 31, 2021 and 2020, the Company is in compliance with the requirements of Section 6 of RA No. 8556.

18. **Cost of Sales**

The movements in this account follow:

	2022	2021
Inventories at beginning of year	**₱–**	₱–
Purchases	**74,401,385**	43,844,119
Inventories available for sale	**74,401,385**	43,844,119
Inventories at end of year	**–**	–
	₱74,401,385	₱43,844,119

'Purchases' pertains only to purchase price of solar products and the toners as supplies for printing.

19. **Leases**

Following is the composition of 'rental and finance income' in the statements of comprehensive income:

	2022	2021
Operating income	**₱112,733,361**	₱153,109,833
Finance income	**330,950**	294,804
	₱113,064,311	₱153,404,637

Operating leases - Company as a lessor
The Company entered into non-cancellable operating leases of its equipment held for lease with its related and third parties for terms of not more than twenty - four (24) months.

Future minimum rentals receivable under non-cancellable operating leases follow:

	2022	2021
Within one year	**₱59,897,090**	₱83,088,322
After one year but not more than five years	**14,944,323**	16,661,833
	₱74,841,413	₱99,750,155

Finance leases - Company as a lessor
The Company entered into finance lease agreements with the employees of related parties which bear annual interest rates ranging from 8.00% to 20.00% and 8.00% to 14.00% in 2022 and 2021, respectively, and have maturity of six (6) months to seven (7) years (see Note 7).

Company as a lessee
The Company leases its office premises and commercial building from a related party for a period of two (2) years and one (1) year, respectively. The lease is renewable upon mutual agreement between the Company and lessor. The leased office space qualifies as a short-term lease, while the commercial building is considered as low value asset.

For the years ended December 31, 2022 and 2021, rent expense recognized under 'Rent' amounted to ₱0.24 million and ₱0.13 million, respectively.

20. Interest Income

This account consists of:

	2022	2021
Receivable financed (Note 7)	**₱40,338,592**	₱35,100,133
Cash in banks (Note 6)	**72,220**	206,562
	₱40,410,812	₱35,306,695

21. Compensation and Benefits

This account consists of:

	2022	2021
Salaries and wages	**₱9,697,190**	₱9,462,959
Short-term employee benefits	**2,576,304**	2,031,077
Retirement benefits (Note 23)	**159,113**	354,535
	₱12,432,607	₱11,848,571

Salaries and wages consist mainly of employees' salaries, while the short-term employee benefit consists of 13th month pay, bonus, medical, dental and hospitalization allowance, employee incentive and monetized value of unused leaves.

22. Miscellaneous Expenses

This account consists of:

	2022	2021
Collections and commission expense	**₱1,429,389**	₱386,238
Repairs and maintenance	**1,085,945**	525,527
Information technology	**729,110**	591,929
Communication and postage	**569,932**	307,242
Others	**2,857,530**	1,680,591
	₱6,671,906	₱3,491,527

Other expenses include utilities, advertising, representation, service charges and reimbursements.

23. Retirement Benefits

The Company, CARD MRI Rizal Bank Inc., CARD, Inc., CARD MRI Development Institute, Inc., CARD Mutual Benefit Association, Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency, Inc., CARD Business Development Service Foundation, Inc., BotiCARD, Inc., CARD Employees Multi-Purpose Cooperative, Responsible for Investments and Solidarity Empowerment Financing Company, Inc., CARD MRI Information Technology, Inc., Mga Likha ni Inay, Inc., and other related parties maintain a funded and formal noncontributory defined benefit retirement plan – a multi-employer retirement plan (MERP or the Plan) – with CARD MERP covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. The Plan is valued using the projected unit cost method and is financed solely by the Company and its related parties.

The Plan and Hybrid Plan are compliant with the requirements of RA No. 7641 (Retirement Law). The Plan provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

Hybrid Plan provides a retirement benefit equal to 100% of the member's employer accumulated value (the Company's contributions of 8% plan salary to Fund A plus credited earnings) and 100% of the member's employee accumulated value (member's own contributions up to 10% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100% of the employer accumulated value in Fund A be less than 100% of plan salary for every year of credited service.

In 2022 and 2021 the Company has five (5) employees and two (2) employees covered under Hybrid Plan, respectively

The latest actuarial valuation report covers reporting period as at December 31, 2022.

The maximum economic benefit of plan assets available is a combination of expected refunds from the plan and reduction in future contributions. The fair values of plan assets by each class as at the end of the reporting period are as follows:

	2022	2021
Cash and cash equivalents	**₱904,113**	₱1,930,019
Debt instruments – government bonds	**3,786,904**	2,034,715
Other assets	**825,231**	772,671
	₱5,516,248	₱4,737,405

All plan assets do not have quoted prices in active market except government debt securities. Cash and cash equivalents are placed with reputable financial institutions and related parties and are deemed to be high grade. Other assets are composed of other bonds, unrated loans, market gain (loss), accrued receivables, net of payable.

The plan assets have diverse investments and do not have any concentration risk other than those government debt securities which are considered low risk.

The overall investment policy and strategy of the Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2022	2021
Discount rate	**7.26%**	5.12%
Future salary increases	**5.00%**	5.00%

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

	2022		2021	
	+1.0%	**-1.0%**	+1.0%	-1.0%
Discount rate	**(₱295,466)**	**346,961**	(₱349,164)	418,561
Salary rate	**351,436**	**(304,006)**	414,758	(352,599)

As of December 31, 2022 and 2021, the average duration of the defined benefit obligation is 10.3 and 12.2 years, respectively.

Shown below is the twenty-five year maturity analysis of the undiscounted benefit payments:

	2022	2021
Less than 1 year	**₱256,837**	₱184,221
More than 1 year to 5 years	**1,113,400**	868,549
More than 5 years to 10 years	**1,918,216**	1,660,871
More than 10 years to 15 years	**1,680,522**	1,515,815
More than 15 years to 20 years	**4,203,265**	3,528,360
More than 20 years to 25 years	**5,257,475**	2,333,830
More than 25 years	**2,372,536**	4,923,713
	₱16,802,251	₱15,015,359

Changes in net defined benefit asset in 2022 and 2021 follow:

2022

	Net benefit cost in the statements of income*						Remeasurements in other comprehensive income						
	January 1	**Current service cost**	**Net interest**	**Subtotal**	**Transfer to the plan****	**Benefits Paid**	**Return on plan assets (excluding amount included in net interest)**	**Experience adjustments**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Changes in the effect of limiting net defined benefit to the asset ceiling**	**Change in remeasurement gains (losses)**	**Contribution by employer**	**December 31**
Present value of defined benefit obligation	**(₱3,150,589)**	**(₱241,219)**	**(₱161,310)**	**(₱402,529)**	**(₱356,376)**	**₱169,837**	**₱–**	**(₱231,537)**	**₱22,341**	**₱819,958**	**₱–**	**₱610,762**	**₱–**	**(₱2,942,356)**
Fair value of plan assets	**4,737,405**	**–**	**256,415**	**256,415**	**356,376**	**(169,837)**	**(18,969)**	**–**	**–**	**–**	**–**	**(18,969)**	**354,858**	**5,329,709**
Effects of asset ceiling	**(253,890)**	**–**	**(12,999)**	**(12,999)**			**–**	**–**	**–**	**–**	**(439,071)**	**(439,071)**	**–**	**(705,960)**
Net defined asset (liability)	**₱1,332,926**	**(₱241,219)**	**₱82,106**	**(₱159,113)**	**₱–**	**₱–**	**(₱18,969)**	**(₱231,537)**	**₱22,341**	**₱819,958**	**(₱439,071)**	**₱152,722**	**₱354,858**	**₱1,681,393**

**Presented under 'Compensation and benefits' in the statements of income.*
***Transfer from (to) plan assets represents transfer of obligation and plan assets to the respective CARD MRI entity as a result of movements in employer among the CARD MRI entities.*

2021

	Net benefit cost in the statements of income*						Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal	Transfer to the plan**	Benefits Paid	Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Changes in the effect of limiting net defined benefit to the asset ceiling	Change in remeasurement gains (losses)	Contribution by employer	December 31
Present value of defined benefit obligation	(₱4,999,817)	(₱364,814)	(₱187,993)	(₱552,807)	₱714,032	₱1,411,077	₱–	₱504,934	₱7,546	(₱235,554)	₱–	₱276,926	₱–	(₱3,150,589)
Fair value of plan assets	6,274,019	–	202,056	202,056	(714,032)	(1,411,077)	61,726	–	–	–	–	61,726	324,713	4,737,405
Effects of asset ceiling	(100,651)	–	(3,784)	(3,784)			–	–	–	–	(149,455)	(149,455)	–	(253,890)
Net defined asset (liability)	₱1,173,551	(₱364,814)	₱10,279	(₱354,535)	₱–	₱–	₱61,726	₱504,934	₱7,546	(₱235,554)	(₱149,455)	₱189,197	₱324,713	₱1,332,926

**Presented under 'Compensation and benefits' in the statements of income.*
***Transfer from (to) plan assets represents transfer of obligation and plan assets to the respective CARD MRI entity as a result of movements in employer among the CARD MRI entities.*

24. **Income Taxes**

Income taxes include corporate income tax and final tax paid at the rate of 25.00% on gross interest income from deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law. This aimed to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduced reforms to the corporate income tax and incentives systems.

Following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact to the Company:

- Effective July 1, 2020, RCIT was reduced for domestic and resident foreign corporations from 30% to 25%. For domestic corporations with net taxable income not exceeding ₱5,000,000 and with total assets not exceeding ₱100,000,000 (excluding land on which the particular business entity's office, plant, and equipment are situated) during the year, RCIT rate is reduced to 20%. Furthermore, based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the Bureau of Internal Revenue (BIR), the prorated RCIT rate of the Company for the year 2020 is 27.5%. Applying these provisions, the Company is subject to lower RCIT rate of 25% effective July 1, 2020.
- The CREATE Act also provides that effective July 1, 2020 to June 30, 2023, the MCIT will be lowered from 2% to 1%.
- Interest expense allowed as a deduction against taxable income shall be reduced by 20% in 2021 and 33% in 2020 of interest income subjected to final tax.

As of December 31, 2020, the Company did not consider the provisions of CREATE yet in the tax computation as reported in the financial statements given that the law became substantially enacted in 2021 when it was signed into law. However, the Company already reflected the lower provision in its 2020 annual income tax return following transitional guidelines from the BIR. For financial reporting purposes, the Company started to use the new tax rate for the income tax computation in the first quarter of 2021. These resulted to a reduction of ₱1.12 million in the provision for current income tax in the statement of comprehensive income for the year ended December 31, 2021. Furthermore, the Company revalued net deferred tax assets by ₱0.17 million in 2021 as a result of the reduction in RCIT rates. This consisted of ₱0.25 million in deferred tax assets adjusted against provision for deferred taxes and ₱0.08 million in deferred tax liabilities adjusted against other comprehensive income.

An optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. For the 2021 and 2020 RCIT computation, the Company elected to claim itemized expense deductions instead of the OSD.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.0% of the Bank's net revenue. The regulations also provide for MCIT of 1.0% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Company's income tax liability and taxable income, respectively, over a three-year period from the year of inception. However, NOLCO incurred in 2020 and 2021 may be applied over a five-year period as provided under RA 11494 or the Bayanihan to Recover as One Act.

The provision for income tax consists of:

	2022	2021
Current:		
Regular	**₱17,985,562**	₱21,245,846
Final	**16,021**	41,312
	18,001,583	21,287,158
Deferred	**705,847**	885,640
	₱18,707,430	₱22,172,798

The components of deferred tax assets (liabilities) follow:

	2022	2021
Deferred tax assets		
Allowance for credit losses	**₱846,828**	₱300,329
Unamortized discount on loans receivable	**63,111**	63,112
Accrued vacation leave	**45,470**	39,959
Unrealized loss on financial assets at FVOCI	**16,956**	1,200,575
Unamortized past service cost	**8,343**	16,688
	980,708	1,620,663
Deferred tax liabilities		
Retirement asset	**420,348**	(333,232)
Net deferred tax assets (liabilities)	**₱560,360**	₱1,287,431

Provision for deferred tax charged directly to OCI amounted to ₱1.18 million and ₱1.16 million in 2022 and 2021, respectively.

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

	2022	2021
Statutory income tax	**₱17,453,508**	₱23,514,838
Tax effects of:		
Non-deductible expenses	**1,257,533**	10,328
Non-taxable income	**(3,611)**	(464,351)
Tax paid income	**–**	(10,329)
CREATE Law	**–**	(877,688)
Provision for income tax	**₱18,707,430**	₱22,172,798

25. **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. The Company's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- post-employment benefit plans for the benefit of the Company's employees, and
- affiliates within the CARD MRI

The Company has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with retirement plan
Under PFRS, certain post-employment benefit plans are considered as related parties. CARD MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2005. The Company has a business relationship with MERP, from which it obtains financing for its working capital requirements.

A summary of transactions with MERP follows:

	2022	2021
Loans payable (availments net of payments)	**₱126,847,222**	₱105,000,000
Accrued interest payable	**614,236**	743,000
Interest expense	**6,645,438**	6,884,834
Contributions to the retirement plan	**354,858**	324,713

Remunerations of directors and other key management personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company considers the members of the BOD and senior management to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

The compensation of key management personnel and director's fee included under 'Compensation and benefits' in the statements of income amounted to ₱5.63 million and ₱3.17 million of short-term benefits in 2022 and 2021, respectively. There is no post-employment benefit in 2022 and 2021.

Other related party transactions
Transactions between the Company and its key management personnel meet the definition of related party transactions. Transactions between the Company and its affiliates within the CARD-MRI also qualify as related party transactions.

Related party transactions of the Company follow:

	2022		
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Loans receivable		**₱–**	This pertains to unsecured loans to the shareholder with annual interest rate of 8.00%, with maturity of 0.5 to 6 years.
Issuances	**₱–**		
Repayments	**(3,577,517)**		
Shareholders			
Other receivables		–	This pertains to the unpaid rent, held for lease and billings on inventories sold (non-interest bearing, unimpaired, due and demandable).
Billings	**129,563,684**		
Collections	**(129,823,982)**		
Accounts payable		–	This pertains to unpaid share of rent and other miscellaneous expenses incurred.
Billings	**4,686,265**		
Payments	**(4,965,207)**		

		2021	
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans receivable		₱–	This pertains to unsecured loans to the shareholder with annual interest rate of 8.00%, with maturity of 0.5 to 6 years.
Issuances	₱–		
Repayments	(5,822,211)		
Shareholders			
Other receivables		260,298	This pertains to the unpaid rent, held for lease and billings on inventories sold (non-interest bearing, unimpaired, due and demandable).
Billings	108,514,500		
Collections	(108,832,507)		
Other current asset		13,200	This pertains to security deposit paid to EMPC for the rental of stock room which will be returned 30 days from expiration or termination of contract
Accounts payable		₱278,942	This pertains to unpaid share of rent and other miscellaneous expenses incurred.
Billings	₱4,610,260		
Payments	(5,476,993)		

26. Notes to Statements of Cash Flows

In 2021, the Company have additional investment property acquired through bad debt recovery amounting to ₱13.05 million. This is considered as non-cash investing activity.

Changes in liabilities arising from financing activities
The table below shows the analysis of movements in financial liabilities arising from financing activities for the year ended December 31, 2022 and 2021, respectively:

	January 1, 2022	**Net cash flows**	**Dividend declaration**	**Amortization of discount**	**December 31, 2022**
Loans payable (Note 15)	**₱167,461,296**	**₱100,911,539**		**₱345,642**	**₱268,718,477**
Dividends payable	**–**	**(65,000,000)**	**65,000,000**	**–**	**–**
Total liabilities from financing activities	**₱167,461,296**	**₱35,911,539**	**₱65,000,000**	**₱345,642**	**₱268,718,477**

	January 1, 2021	Net cash flows	Dividend declaration	Amortization of discount	December 31, 2021
Loans payable (Note 15)	₱171,690,718	(₱5,269,672)		₱1,040,250	₱167,461,296
Dividends payable	–	(65,000,000)	65,000,000	–	–
Total liabilities from financing activities	₱171,690,718	(₱70,269,672)	₱65,000,000	₱1,040,250	₱167,461,296

27. Approval of the Release of the Financial Statements

The accompanying financial statements of the Company were reviewed and approved for release by the Company's BOD on April 28, 2023.

28. Supplementary Information Required under Revenue Regulations No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to the financial statements shall include information on taxes, duties and licenses paid or accrued during the year.

Taxes and Licenses
The components of 'Taxes and licenses' recognized in the statements of income follow:

Documentary stamp taxes	₱829,686
Business permits and licenses	323,491
SEC registration	77,816
	₱1,230,993

Withholding Taxes
The following withholding taxes in 2022 are categorized into:

	Total Remittances	Balance as at December 31, 2022
Expanded withholding taxes	₱1,617,256	₱130,241
Final withholding taxes	2,087,300	-
Withholding tax on compensation and benefits	1,052,506	289,985
	₱4,757,062	₱420,226

Value-Added Tax
The National Internal Revenue Code of 1997 also 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. VAT rate is 12.00% effective February 1, 2006.

Details of the Company's input tax claimed are as follows:

Balance at beginning of year	₱-
Input tax carried over	40,205
Current year's purchases of:	
Goods other than capital goods	9,066,439
Capital goods subject to amortization	5,996,303
Services	750,029
Total input VAT available	15,852,976
Claims against output VAT	15,846,567
Balance of input VAT at end of year	₱6,409

Details of the Company's net output tax are as follows:

Balance at beginning of year	₱1,367,208
Output VAT during the year	29,573,328
Remittances	(13,693,709)
Application of input VAT	(15,846,567)
Balance of output VAT at end of year	₱1,400,260

Tax Assessment

As at December 31, 2022, there is an outstanding tax audit for the taxable year 2020.