CARD MRI PROPERTY MANAGEMENT, INC.

(Formerly: CARD MRI Property Holdings, Inc.)

Financial Statements

December 31, 2021 and 2020

And

Independent Auditor's Report

ENDRIGA, MANANGU & ASSOCIATES

Certified Public Accountants

CARD MRI PROPERTY MANAGEMENT, INC.
(Formerly: CARD MRI Property Holdings, Inc.)
STATEMENT OF FINANCIAL POSITION

	Notes		As of December 31 2021		2020
ASSETS					
CURRENT ASSETS					
Cash and other cash items	*2, 3, 4*	₱	**25,548,177**	₱	6,359,034
Loan and other receivables	*2, 3, 5*		**786,978**		2,326,639
Equity instruments at FVOCI	*2, 3, 6*		**10,020,764**		8,736,569
Other current assets	*2, 3, 7*		**14,153,119**		29,333,471
Total Current Assets			**50,509,038**		46,755,713
NONCURRENT ASSETS					
Investment properties - net	*2, 3, 8*		**366,655,296**		356,844,229
Property and equipment - net	*2, 3, 9*		**780,089**		2,884,500
Right-of-use assets - net	*2, 3, 10*		**5,468,790**		8,423,302
Other noncurrent asset	*2, 3, 11*		**2,852,784**		4,276,272
Total Noncurrent Assets			**375,756,959**		372,428,302
TOTAL ASSETS		₱	**426,265,997**	₱	419,184,016
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Current liabilities	*2, 3, 12*	₱	**8,327,434**	₱	8,981,681
Loans payable - current portion	*2, 3, 14*		**16,385,781**		25,665,245
Lease liability - current portion	*2, 3, 13*		**3,045,711**		2,559,532
Total Current Liabilities			**27,758,926**		37,206,459
NONCURRENT LIABILITIES					
Loans payable - net of current portion	*2, 3, 14*		**9,441,231**		22,344,002
Lease liability - net of current portion	*2, 3, 13*		**3,051,206**		6,096,917
Retirement benefit obligation	*2, 3, 22*		**282,591**		3,368,448
Other liabilities	*2, 3, 15*		**3,711,592**		3,598,938
Total Noncurrent Liabilities			**16,486,620**		35,408,306
EQUITY					
Capital stock	*2, 16*		**376,869,300**		348,537,900
Retained earnings	*2*		**4,178,429**		1,578,629
Retirement plan actuarial gain (loss) - net	*2, 3, 22*		**258,146**		(2,977,658)
Fair value reserve	*2, 6*		**714,576**		(569,619)
Total Equity			**382,020,451**		346,569,252
TOTAL LIABILITIES AND EQUITY		₱	**426,265,997**	₱	419,184,016

See accompanying Notes to Financial Statements.

CARD MRI PROPERTY MANAGEMENT, INC.

(Formerly: CARD MRI Property Holdings, Inc.)

STATEMENT OF COMPREHENSIVE INCOME

		For the Years Ended December 31	
	Notes	**2021**	2020
REVENUES	*17*	**₱ 30,213,146**	₱ 28,378,608
COST OF SERVICES	*18*	**(20,016,989)**	(19,943,488)
GROSS INCOME		**10,196,157**	8,435,120
OPERATING EXPENSES	*18*	**(6,986,503)**	(8,495,394)
OTHER INCOME	*19*	**309,689**	775,115
INCOME BEFORE INCOME TAX		**3,519,343**	714,841
PROVISION FOR INCOME TAX	*20*	**919,543**	457,785
NET INCOME AFTER INCOME TAX		**2,599,800**	257,056
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified to profit or loss			
Net change in fair value of Equity instruments at FVOCI	*6*	**1,284,195**	(569,619)
Retirement plan actuarial gain - net	*22*	**3,235,804**	19,147
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱ 7,119,799**	₱ (293,415)

See accompanying Notes to Financial Statements.

CARD MRI PROPERTY MANAGEMENT, INC.
(Formerly: CARD MRI Property Holdings, Inc.)

STATEMENT OF CHANGES IN EQUITY

		Capital Stock *(Note 16)*		Retained Earnings		Retirement plan actuarial gain (loss) - net		Fair value reserves		Total
Balance at January 1, 2021	**₱**	**348,537,900**	**₱**	**1,578,629**	**₱**	**(2,977,658)**	**₱**	**(569,619)**	**₱**	**346,569,252**
Issuance of stocks		**28,331,400**		**-**		**-**		**-**		**28,331,400**
Total comprehensive income		**-**		**2,599,800**		**3,235,804**		**1,284,195**		**7,119,799**
Balance at December 31, 2021	**₱**	**376,869,300**	**₱**	**4,178,429**	**₱**	**258,146**	**₱**	**714,576**	**₱**	**382,020,451**
Balance at January 1, 2020	₱	301,238,003	₱	1,509,160	₱	(2,996,805)	₱	-	₱	299,750,358
Issuance of stocks		47,300,000		-		-		-		47,300,000
Stock dividends		(103)		-		-		-		(103)
Effects of the transition to PFRS (Note 2)		-		(187,587)		-		-		(187,587)
Total comprehensive income (loss)		-		257,056		19,147		(569,619)		(293,415)
Balance at December 31, 2020	₱	348,537,900	₱	1,578,629	₱	(2,977,658)	₱	(569,619)	₱	346,569,252

See accompanying Notes to Financial Statements.

CARD MRI PROPERTY MANAGEMENT, INC.
(Formerly: CARD MRI Property Holdings, Inc.)
STATEMENT OF CASH FLOWS

		For the Years Ended December 31	
	Notes	**2021**	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income before income tax		₱ **3,519,343**	₱ 714,841
Adjustments for:			
Depreciation expense	*8, 9, 10, 18*	**14,834,457**	13,826,698
Interest income	*4, 19*	**(309,689)**	(231,681)
Interest expense	*18*	**2,523,999**	3,767,624
Interest expense from right-of-use assets	*18*	**570,135**	680,656
Retirement expense, net of contributions	*18, 22*	**149,947**	348,369
Amortization of transaction costs on loans payable	*14*	**151,098**	193,791
Cash from operations before working capital changes		**21,439,290**	19,300,297
Changes in operating assets and liabilities			
Decrease (increase) in:			
Equity instruments at FVOCI	*6*	**(1,284,195)**	(8,736,569)
Loan and other receivables	*5*	**1,539,661**	1,961,407
Other current assets	*7*	**15,667,335**	8,562,081
Increase (decrease) in:			
Current liabilities	*12*	**629,948**	(494,727)
Other liabilities	*12*	**112,654**	603,268
Net cash provided by operations		**38,104,693**	21,195,756
Interest received	*19*	**309,689**	231,681
Interest paid	*18*	**(3,094,134)**	(4,448,279)
Income tax paid	*20*	**(1,406,525)**	(1,227,089)
Net cash provided by operating activities		**33,913,723**	15,752,069
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investment properties	*8*	**(19,586,602)**	(26,309,510)
Acquisitions of property and equipment	*9*	**-**	(179,043)
Decrease in other noncurrent assets	*11*	**1,423,488**	1,424,908
Net cash used in investing activities		**(18,163,114)**	(25,063,645)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Issuance of capital stock	*16*	**28,331,400**	47,300,000
Settlement of loans payable	*14*	**(22,333,333)**	(34,168,388)
Settlement of lease liability	*13*	**(2,559,533)**	(2,651,351)
Stock dividends payable	*16*	**-**	(103)
Net cash provided by financing activities		**3,438,534**	10,480,158
NET INCREASE IN CASH		**19,189,143**	1,168,582
CASH AT BEGINNING OF PERIOD	*4*	**6,359,034**	5,190,452
CASH AT END OF PERIOD	*4*	₱ **25,548,177**	₱ 6,359,034

See accompanying Notes to Financial Statements.

1. Corporate Information

CARD MRI Property Management, Inc. (formerly: CARD MRI Property Holdings, Inc.) (the Company) was incorporated and duly registered with the Securities and Exchange Commission (SEC) on November 10, 2016. The Company's primary purposes are to deal and engage in land or real estate business in all its branches and ramifications, to hold, develop, manage, administer, sell, convey, encumber, purchase, acquire. rent or otherwise deal in and dispose of, for itself or for others, for profit and advantage, including hotels, inns or resorts, all adjuncts and accessories thereto, housing projects, commercial and industrial, urban or other kinds of real property, improved or unimproved, with or to such persons and entities and under such conditions as may be permitted by law and any and all other businesses as may be necessary and desirable in connection therewith.

The Company is a member of Center for Agriculture and Rural Development (CARD) - Mutually Reinforcing Institutions (MRI).

The Company's principal office is located in 20 M. L. Quezon Street, City Subdivision, San Pablo City, Laguna.

Change of Corporate Name
On March 8, 2019, the Company amended its Articles of Incorporation to change its company name from CARD MRI Property Holdings, Inc. to CARD MRI Property Management, Inc.

2. Basis of Preparation, Statement of Compliance, Significant Accounting Policies, and Changes in Accounting Policies

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

2.1 Basis for Preparation

The financial statements of the Company have been prepared on a historical cost basis. The financial statements are presented in Philippine peso, which is the Company’s functional and presentation currency. All amounts are rounded to the nearest peso unless otherwise stated.

2.2 Statement of Compliance

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

The Company's total assets as of December 31, 2019 exceeded the threshold provided by SEC for the PFRS for SMEs framework and will be reporting its financial statements in compliance with PFRS framework starting January 1, 2020.

2.3 Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liability simultaneously. The Company assesses that it has currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

2.4 Significant Accounting Policies

The principal accounting policies applied in the preparation of the financial statements are set out below.

2.4.1 Financial Instruments

The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

i. Recognition, Subsequent Measurement and Derecognition

Initial Recognition - All financial instruments are initially measured at fair value, except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

Financial Assets:

After initial recognition, the Company shall measure its financial assets at their fair values, without any deduction for transactions costs it may incur on sale or other disposal, except for receivables, which shall be measured at amortized cost using the effective interest method.

The Company shall derecognize a financial asset when, and only when:

a. the contractual rights to the cash flows from the financial asset expire; or

b. it transfers the financial asset under terms that qualify it for derecognition.

Financial Liabilities:

After initial recognition, the Company shall measure its financial liabilities at amortized cost, unless fair value option is applied.

The Company shall remove a financial liability (or part of it) from the statement of financial position when, and only when, it is extinguished (that is, when the obligation specified in the contract is discharged or cancelled or expires).

The difference between the carrying amount of a financial liability (or part of it) extinguished or transferred to another party and the consideration paid, shall be recognized in profit and loss.

ii. Classification as Financial Liabilities or Equity Instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

Financial Liabilities

Financial liabilities are contractual obligations to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments or a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds, net of tax.

iii. Fair Value Measurement and Valuation Techniques

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:

a. In the principal market for the asset or liability; or

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

The fair value of an asset or a liability is measured using the assumption that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances.

Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available an supportable market data as possible). 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. The Company's management determines the policies and procedures for both recurring fair value measurement and non-recurring measurement. At each reporting date, the management analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed based on the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

iv. Amortized Cost

The amortized cost of a financial instrument at each reporting date is the net of the following amounts:

a. the amount at which the financial instrument is measured at initial recognition;

b. minus any repayments of the principal;

c. plus or minus the cumulative amortization using the effective interest method of any difference between the amount at initial recognition and the maturity amount;

d. minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

v. Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset (or a group of financial assets) and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the carrying amount of the financial asset. The effective interest rate is determined on the basis of the carrying amount of the financial asset at initial recognition.

vi. Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankrupt of the Company and all of the counterparties.

vii. Policies applicable beginning January 1, 2019

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

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

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

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.

viii. Impairment of Financial Assets

At the end of each reporting period, the Company assesses whether there is objective evidence of impairment of any financial assets. If there is objective evidence of impairment, the Company recognizes an impairment loss in profit or loss immediately.

The Company assesses impairment either individually or grouped on the basis of similar credit risk characteristics.

Objective evidence of impairment could include:
a. significant financial difficulty of the issuer or obligor;
b. a breach of contract, such as a default or delinquency in interest or principal payments;
c. the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider.
d. it has become probable that the debtor will enter bankruptcy or other financial reorganization; and
e. observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

For instruments measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For instruments measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date.

2.4.2 Investment Properties

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

The initial cost of investment properties consists of its purchase price, including non-refundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after items of Investment properties have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred, In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item investment properties beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of Investment properties.

Depreciation is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and EUL of the improvements.

The range of the EULs of the Investment properties follows:

Building and improvements	15 years
Leasehold improvements	3 years

The depreciation method and the EULs are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of Investment properties.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against profit or loss.

An item of Investment properties is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) it is included in the statement of comprehensive income under 'Miscellaneous income' in the period the asset is derecognized.

The carrying values of the Investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized under 'Provision for credit and impairment losses' in the statement of comprehensive income.

2.4.3 Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period when the costs are incurred. In situation where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the following estimated useful lives of property and equipment. The estimated useful lives for property and equipment is 3 years.

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

When assets are sold and retired, their cost and accumulated depreciation are derecognized from the accounts, and any gain or loss resulting from their disposal is charged or credited to operations.

2.4.4 Other Assets
Other assets represent miscellaneous assets, prepaid taxes, supplies on hand, and input VAT. Miscellaneous assets consist of earnest money used to purchase properties and deposit for rented assets. These are measured at the amount of cash paid. Subsequently, earnest money is included as part of the cost of the asset upon recognition and cash deposits are returned after deducting any charges by the lessor.

2.4.5 Capital Stock
Capital stock represents ordinary shares which are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

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

2.4.6 Retained Earnings

Retained earnings represent the cumulative balance of periodic net income, prior period adjustments and effect of changes in accounting policies, and other capital adjustments, net of any dividend declaration. Dividends, except for stock dividends, are recognized as a liability and deducted from equity when they are approved by the Company's Board of Directors and/or stockholders. Dividends for the period that are approved after the end of this financial reporting period are dealt with as an event after the financial reporting period. Retained earnings may also include the effect of changes in accounting policy as may be required by the accounting standard's transitional provisions.

2.4.7 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured regardless of when payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has assessed that it is acting as a principal in all of its revenue transactions. The following specific recognition criteria must also be met before income is recognized:

i. Interest income

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

ii. Rental income

Receipts from rental of Investment properties are recognized as Rental income.

iii. Commission income

Commission income consists of payments from construction facilitation, property management and asset maintenance, and are recognized only upon collection or accrued when there is reasonable degree of certainty as to their collectability.

2.4.8 Expense Recognition

Expense is recognized in the statement of comprehensive income when it is probable that a decrease in future economic benefits related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Expenses are recognized as incurred or when the related revenue is earned.

2.4.9 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.

The Company as 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-or-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 asset is available for use). Right-of-use assets are measured at cost, less any 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 lease term.

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 (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 Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

The Company as 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 is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss 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. Unearned rents are recognized as revenue in the period in which they are earned.

2.4.10 Income Taxes
i. Current Tax
Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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

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

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

2.4.11 Foreign Currency-denominated Transactions and Translation
Transactions in foreign currencies are translated at exchange rates at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange at the reporting date. Gains or losses arising from exchange rate changes are dealt with in profit or loss.

2.4.12 Provision and Contingencies
Provisions are recognized when the Company has present legal or constructive obligations as a result of 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.

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

2.4.13 Employee Benefits

i. Short-term Benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Company to its employees include compensation, social security contributions, short-term compensated absences, bonuses and other non-monetary benefits.

ii. Long-term Benefits

Defined benefit plan

The Company operates a defined benefit retirement plan and a hybrid retirement plan which require contribution to be made to a separately administered fund. 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 and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). 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 plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

(a) Service Cost;

(b) Net interest on the net defined benefit liability or asset; and

(c) 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 expenses in the statement of comprehensive income. Past service costs are recognized when 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 comprehensive income.

Remeasurements comprising 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 the statement of financial position with a corresponding debit or credit to 'Retirement plan actuarial gain (loss) - net ' under the statement of comprehensive income in this period in which they arise.

Plan assets are assets that are held by a long-term employee benefit fund. 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 12 months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

2.4.14 Related Parties

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Company; (2) associates; and (3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

The key management personnel of the Company and post-employment benefit plans for the benefit of Company’s employees are also considered to be related parties.

2.4.15 Events after the Reporting Period

The Company identifies subsequent events as events that occurred after the reporting period but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Company’s financial position and results of operation for the reporting period, referred to as adjusting events, are reflected in the financial statements, while subsequent events that do not require adjustments, referred to as non-adjusting events, are disclosed in the notes to financial statements when material.

<u>2.5 New and amended standards and interpretations</u>

The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new or amended standards and accounting pronouncements in 2021. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Adoption of these pronouncements did not have any significant impact on the Company’s statements of financial position and statements of comprehensive income unless otherwise indicated:

- PFRS 17, Insurance Contracts

  PFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. PFRS 17 supersedes PFRS 4 Insurance Contracts as of January 1, 2023. This amendment had no impact on the financial statements of the Company.

- Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)

  Amends IFRS 4 Insurance Contracts provide two options for entities that issue insurance contracts within the scope of IFRS 4:

  \- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;

  \- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

  The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. This amendment had no impact on the financial statements of the Company.

- Classification of Liabilities as Current or Non-Current (Amendments to PAS 1)

  The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. This amendment had no impact on the financial statements of the Company.

- Reference to the Conceptual Framework (Amendments to IFRS 3)

  The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. This amendment had no impact on the financial statements of the Company.

- Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)
  The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. This amendment had no impact on the financial statements of the Company.

- Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)
  The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). These amendments had no impact on the financial statements of the Company.

- Amendments to PFRS 17, Insurance Contracts
  PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of PFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

- Amendments to PAS 1 and PAS 8, Definition of Material
  The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS
  The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This amendment had no impact on the financial statements of, nor is there expected to be any future impact to the Company.

3. Significant Accounting Estimates and Assumptions

The preparation of financial statements in accordance with PFRS requires management to make estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and disclosure of contingent assets and liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectation of future events that are beyond to be reasonable under the circumstances.

Judgments

Principal versus agent

An entity is acting as principal if individually or in combination of the scenarios below:

a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order;

b) the entity has inventory risk before or after the customer order, during shipping or on return;

c) the entity has latitude in establishing prices, either directly or indirectly;

d) the entity the customer's credit risk on the receivable due from the customer.

In an agency relationship, the gross inflows of economic benefits often include the amounts collected on behalf of the principal and the amounts which do not result in increase in equity for the entity. The amounts collected on behalf of the principal are not revenue; instead revenue is the amount of commission. The Company recognized income from their service operations as commission income (Note 17).

Operating lease commitments as lessor

The Company has entered into commercial property leases on its investment properties. The Company has determined that it retains all significant risks and rewards of ownership of these properties considering the length of the lease term compared to the estimated useful life of the assets. The Company accordingly accounted for these as operating leases including the income recognized in these commitments.

3.1 Estimating deferred tax asset

A deferred tax asset is recognized only to the extent that taxable income will be available against which the deferred tax asset can be used or when there are sufficient taxable temporary differences which are expected to reverse in the same period as the expected reversal of the deductible temporary differences.

As of December 31, 2021 and 2020, the Company cannot reasonably estimate future taxable income for which the available deferred tax asset could be recovered, and therefore, the Company did not set up deferred tax balances. The estimated amounts are deemed by the management as not material to the financial statements (Note 22).

3.2 Estimating present value of retirement liability

The cost of defined retirement plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and long-term nature of these plans, such estimates 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 employee benefit payout at reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. The present value of the retirement liability and fair value of plan assets are disclosed in Note 22.

4. Cash and Other Cash Items

This account consists of:

		2021		2020
Cash in banks	₱	**25,538,177**	₱	6,349,034
Cash on hand and other cash items		**10,000**		10,000
	₱	**25,548,177**	₱	6,359,034

Cash in banks represents deposit with a local bank and commercial bank which earns an annual interest rate of 0.25% and 1.50% in 2021 and 2020.

Other cash items consist of petty cash fund and cheques received and was not deposited in bank as of reporting date.

Interest income earned by the Company from cash in banks amounted to ₱209,779 and ₱83,453, respectively.

5. Loan and Other Receivables

This account consists of:

		2021		2020
Loan receivable	₱	**690,000**	₱	1,610,000
Accrued rent receivable		**57,291**		561,301
Accounts receivable		**39,687**		155,337
	₱	**786,978**	₱	2,326,639

Loan receivable pertains to receivables from Unihealth that earns 6.00% interest yearly. Interest income earned related to the loan amounted to ₱69,141 and ₱119,426 in 2021 and 2020, respectively (Note 19).

Accounts receivable pertains to receivable from clients. Accrued rent receivable pertains to receivable from lessees.

6. Equity instruments at FVOCI

This account consists of:

		2021		2020
Acquisition cost	₱	**8,736,569**	₱	-
Addition		**-**		8,736,569
		8,736,569		8,736,569
Accumulated equity in net earnings		**1,284,195**		-
	₱	**10,020,764**	₱	8,736,569

On July 12, 2020, the Company invested ₱8,736,569 in ordinary shares of Rizal College of Laguna, Inc., which represents 2% equity in the college.

The management elected to classify irrevocably its unquoted equity shares under financial assets designated at FVOCI as it intends to hold this investment for the foreseeable future.

The investment did not meet the SPPI contractual cash flow characteristic test to qualify for amortized cost classification. The equity instruments are not held for trading or are not contingent consideration in a business combination.

Under this option, only qualifying dividends are recognized in profit and loss. Changes in fair value are recognized in OCI and never reclassified to profit and loss, even if the asset is impaired, sold or otherwise derecognized.

There are no dividends recognized during the period. There are no derecognized investment during the reporting period. There are no transfers of the cumulative gain or loss within equity during the period.

7. Other Current Assets

This account consists of:

		2021		2020
Miscellaneous asset	₱	**8,941,114**	₱	23,599,430
Supplies on hand		**2,128,078**		2,142,564
Prepaid taxes		**1,833,276**		1,346,294
Input VAT		**837,172**		2,245,183
Prepaid expenses		**413,479**		-
	₱	**14,153,119**	₱	29,333,471

Miscellaneous assets pertains to initial and advance payments for the properties not yet fully acquired by the Company at the end of reporting period.

Prepaid expenses consist of advance payments made for the fire insurance and real property tax.

8. Investment Properties - Net

2021

Details of Investment Properties at December 31, 2021 follow:

	Land	Building	Land Improvement	Construction in Progress	Leasehold Improvements	Total
Cost						
Beginning balance	₱ 248,401,346	₱ 114,910,856	₱ 4,233,844	₱ 5,663,982	₱ 889,891	**₱ 374,099,919**
Additions	17,223,085	1,604,589	758,929	-	-	**19,586,603**
Transfers	-	5,663,982	-	(5,663,982)	-	**-**
Ending balance	**265,624,431**	**122,179,427**	**4,992,773**	**-**	**889,891**	**393,686,522**
Accumulated depreciation						
Beginning balance	-	14,944,176	2,091,573	-	219,941	**17,255,690**
Additions	-	8,246,819	1,167,875	-	360,842	**9,775,536**
Ending balance	**-**	**23,190,995**	**3,259,448**	**-**	**580,783**	**27,031,226**
Net book value	**₱ 265,624,431**	**₱ 98,988,432**	**₱ 1,733,325**	**₱ -**	**₱ 309,108**	**₱ 366,655,296**

2020

Details of Investment Properties at December 31, 2020 follow:

	Land	Building	Land Improvement	Construction in Progress	Leasehold Improvements	Total
Cost						
Beginning balance	₱ 230,521,270	₱ 111,026,834	₱ 3,492,772	₱ 2,458,445	₱ 291,088	**₱ 347,790,408**
Additions	22,584,502	1,410,714	741,071	7,348,395	598,803	**32,683,486**
Transfers	-	4,142,857	-	(4,142,857)	-	**-**
Disposals	(4,704,426)	(1,669,549)	-		-	**(6,373,976)**
Ending balance	**248,401,346**	**114,910,856**	**4,233,844**	**5,663,982**	**889,891**	**374,099,919**
Accumulated depreciation						
Beginning balance	-	7,446,270	992,761	-	15,312	**8,454,344**
Additions	-	7,497,906	1,098,812		204,629	**8,801,346**
Ending balance	**-**	**14,944,176**	**2,091,573**	**-**	**219,941**	**17,255,690**
Net book value	**₱ 248,401,346**	**₱ 99,966,680**	**₱ 2,142,271**	**₱ 5,663,982**	**₱ 669,951**	**₱ 356,844,229**

Total rental income received from Investment properties amounted to ₱24,463,776 and ₱21,692,979 in 2021 and 2020, respectively.

9. Property and Equipment - Net

2021

Details of Property and Equipment are as follows:

	2021	2020
Cost		
Beginning balance	**₱ 6,313,233**	₱ 6,134,190
Additions	**-**	179,043
Ending balance	**6,313,233**	6,313,233
Accumulated depreciation		
Beginning balance	**3,428,732**	1,357,893
Additions	**2,104,411**	2,070,839
Ending balance	**5,533,143**	3,428,732
Net book value	**₱ 780,089**	₱ 2,884,500

The property and equipment account consists of furniture and fixtures purchased by the Company.

10. Right-of-use Assets

Details of Right-of-use Assets are as follows:

	2021	2020
Cost		
Beginning balance	**₱ 13,607,666**	₱ 13,607,666
Additions	**-**	-
Ending balance	**13,607,666**	13,607,666
Accumulated depreciation		
Beginning balance	**5,184,364**	2,229,852
Additions	**2,954,512**	2,954,512
Ending balance	**8,138,876**	5,184,364
Net book value	**₱ 5,468,790**	₱ 8,423,302

The Company leases buildings. The average lease term is 5 years in 2021 and 2020.

The maturity analysis of lease liabilities is presented in Note 13.

		2021		2020
Amounts recognized in profit and loss				
Depreciation expense on right-of-use assets	₱	**2,954,512**	₱	2,954,512
Interest expense on lease liabilities		**509,253**		680,656
Expense relating to short-term leases		**709,694**		1,259,972

The total cash outflow for leases amount to ₱2,559,532 and ₱3,226,586 in 2021 and 2020, respectively.

11. Other Noncurrent Asset

This account consists of deferred input VAT subject to amortization that amounted to ₱2,852,784 and ₱4,276,272 as of December 31, 2021 and 2020, respectively.

12. Current Liabilities

This account consists of:

		2021		2020
Accounts payable	₱	**6,180,877**	₱	6,386,226
Accrued other expenses		**900,451**		1,343,589
Unearned rental income		**828,793**		828,793
Withholding tax payable		**392,070**		399,207
Employee contributions payable		**25,243**		23,866
	₱	**8,327,434**	₱	8,981,681

Accounts payable represents amount payable to land owners, contractors, and suppliers in 2021 and 2020.

13. Lease Liabilities

The maturity analysis of lease liabilities are as follows:

		2021		2020
Year 1	₱	**3,045,711**	₱	2,559,532
Year 2		**2,551,296**		3,045,711
Year 3		**499,910**		2,551,296
Year 4		**-**		499,910
Year 5		**-**		-
Total		**6,096,917**		8,656,450
Less: Current portion		**3,045,711**		2,559,532
Noncurrent portion	₱	**3,051,206**	₱	6,096,917

The Company does not face a significant liquidity risk with regard to its lease liabilities.

14. Loans Payable

The composition and movement in this account are as follows:

		2021		2020
Face value				
Balance at beginning of year	₱	**48,333,333**	₱	82,501,721
Principal payments		**(22,333,333)**		(34,168,388)
Balance at end of year		**26,000,000**		48,333,333
Unamortized transaction cost				
Balance at beginning of year		**324,087**		517,878
Principal payments		**(151,098)**		(193,791)
Balance at end of year		**172,988**		324,087
Net carrying value	₱	**25,827,012**	₱	48,009,247
Balance at end of year	₱	**25,827,012**	₱	48,009,247
Less: Current portion		**(16,385,781)**		(25,665,245)
Noncurrent portion	₱	**9,441,231**	₱	22,344,002

These are loans payable to Land Bank of the Philippines, CARD MBA, CARD MRI Multi-Employer Retirement Plan (MERP), and CARD, Inc. with annual interest rate of 5%. In 2021 and 2020, interest paid on loans payable amounted to ₱2,523,999 and ₱3,767,624, respectively. No debt covenant is being implemented in relation to the loans availed.

15. Other Liabilities

This account consists of security deposits from lessees that amounted to ₱3,711,592 and ₱3,598,938 as of December 31, 2021 and 2020, respectively.

16. Equity

As of December 31, 2021, the Company's capital stock consists of:

	2021			2020		
	Shares		**Amount**	Shares		Amount
Common stock - ₱100 par value 5,000,000 authorized shares						
Balance at the beginning of the year	**3,485,379**	₱	**348,537,900**	3,012,380	₱	301,238,003
Issuance of shares at beginning of year	**283,314**		**28,331,400**	303,000		30,300,000
Issuance of shares of stocks from settlement of subscription receivable	**-**		**-**	170,000		17,000,000
Stock dividend payable	**-**		**-**	(1)		(103)
	3,768,693	₱	**376,869,300**	3,485,379	₱	348,537,900

In 2021, the Company issued 283,314 shares with a ₱100 par value with a total amount of ₱28,331,400.

On June 14, 2020, the Board of Directors approved the stock dividend declaration that amounted to ₱1,237,503.

Capital Management

The Company's objectives when managing capital are: (a) to safeguard the Company's ability to continue as a going concern; (b) to support the Company's stability and growth by maintaining strong credit ratings and healthy capital ratios; and (c) to provide capital for the purpose of strengthening the Company's risk management capability to support and sustain its business growth towards maximizing the shareholder's value.

Minimum Capital Requirement

The Company considers its equity as its capital and is not subject to any externally imposed regulatory capital requirements.

17. Revenues

This account consists of:

		2021		2020
Rental income (Note 8)	₱	**24,463,776**	₱	21,692,979
Service income:				
Property maintenance		**1,914,499**		1,204,696
Construction and renovation facilitation		**1,772,157**		2,241,562
Accommodation		**1,538,301**		2,989,097
Asset and property management		**524,413**		250,275
	₱	**30,213,146**	₱	28,378,608

18. Expenses

a. Cost of services

Cost of services consist of:

		2021		2020
Depreciation expense (Notes 8, 9, and 10)	₱	**14,834,457**	₱	13,826,698
Compensation and fringe benefits		**2,851,440**		2,618,484
Rent expense		**709,694**		1,259,972
Supplies expense		**570,135**		592,616
Interest expense from right-of-use assets (Note 13)		**509,253**		680,656
Service costs		**392,063**		616,694
Retirement expense, net of contributions		**149,947**		348,369
	₱	**20,016,989**	₱	19,943,488

b. Operating expenses

Operating expenses consist of:

		2021		2020
Interest expense (Note 14)	₱	**2,523,999**	₱	3,767,624
Janitorial and messengerial		**1,101,433**		1,439,498
Taxes and licenses		**667,415**		1,019,305
Transportation and travel		**495,605**		491,651
Insurance expense		**476,108**		190,860
Management and professional fees		**254,671**		480,605
Others:				
Fines and penalties		**301,676**		-
Power, light and water		**290,265**		484,300
Miscellaneous expense		**237,474**		146,282
Communication and postage		**234,849**		253,173
Repair and maintenance		**231,727**		22,552
Periodicals		**59,855**		7,534
Training and development		**51,043**		82,976
Operating lease		**23,782**		23,600
Surveying cost		**18,401**		68,735
IT expenses		**18,200**		16,700
	₱	**6,986,503**	₱	8,495,394

The miscellaneous expense mainly consists of expenditures on antigen test kits, vaccination of personnel, share on processing fee and real property tax on acquisition of properties, staff uniforms and medicine, and garbage disposal.

19. Other Income

This account consists of:

		2021		2020
Interest income from cash in banks	₱	**209,779**	₱	83,453
Interest income from loans		**69,142**		119,426
Interest income from right-of-use asset		**30,768**		28,803
Gain on disposal of land		**-**		542,933
Miscellaneous income		**-**		500
	₱	**309,689**	₱	775,115

20. Income Tax

a. Optional Standard Deduction

Effective July 2008, Republic Act 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. In 2021 and 2020, the Company opted to continue claiming itemized deduction.

b. Reconciliation

Reconciliation between accounting income and taxable income is presented below:

Regular Corporate Income Tax (RCIT)		**2021**		2020
Accounting income	₱	**3,519,343**	₱	714,841
Permanent differences:				
Interest income subject to final tax		**(209,779)**		(83,453)
Penalties and surcharges		**301,676**		-
Interest expense		**41,956**		27,539
PFRS 16 Depreciation		**2,954,512**		2,954,512
PFRS 16 Related rent expense		**(3,068,785)**		(3,332,007)
PFRS 16 Interest expense		**509,253**		680,656
PFRS 16 interest income		**(30,768)**		(28,803)
Temporary differences:				
Retirement expense, net of contributions		**149,947**		348,369
Accrued rent income		**(504,010)**		188,660
Taxable income	₱	**3,663,345**	₱	1,470,315
Income tax expense (current) - 25% and 30%, respectively	₱	**915,836**	₱	441,094
MCIT - 1% and 2%, respectively		**108,102**		184,205
Income tax expense (current)	₱	**915,836**	₱	441,094
Prior year's excess tax credits		**(1,384,543)**		-
Income taxes paid and tax credits		**(1,364,569)**		(1,787,388)
Income tax overpayment	₱	**(1,833,276)**	₱	(1,346,294)

d. Provision for income tax consists of:

		2021		2020
Provision for final tax	₱	**41,956**	₱	16,691
Provision for current tax		**915,836**		441,094
Income tax adjustment (effect of CREATE Act in 2020)		**(38,249)**		-
Total	₱	**919,543**	₱	457,785

e. The Company did not recognize deferred tax assets (liabilities) on the following differences:

		2021		2020
Retirement liability	₱	**70,648**	₱	1,010,534
Accrued rent		**(126,003)**		56,598
	₱	**(55,355)**	₱	1,067,132
Effective tax rate: 25% and 30%, respectively		**25%**		30%
Deferred tax assets (liabilities)	₱	**(13,839)**	₱	320,140

The unused excess tax credits for 2021 and 2020 are disclosed in Note 7 under Prepaid taxes.

21. Related Party Transactions

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Company; (2) associates; and (3) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

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 rental, maintenance and facilitation services, 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 present or other unfavorable conditions.

a. Transactions with retirement plans

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.

b. Rental income, maintenance and facilitation income, accounts receivable, and accounts payable

The table below shows rental income, maintenance and facilitation income, accounts receivable and accounts payable held by the Company for other related parties.

December 31, 2021

	Amount/ Volume	**Outstanding Balance**	**Nature, Terms and Conditions**
Accounts Receivable		₱ **39,687**	These are the facilitation for the construction of building, building maintenance, aircon cleaning and maintenance, asset and property management.
Charges	₱ **6,328,897**		
Collections	**6,289,210**		
Accounts Payable		**-**	These pertain to unpaid insurance paid for buildings and staff, supplies acquisition, and loan amortization payable
Charges	**5,335,444**		
Payments	**5,335,444**		
Service Income		**-**	This pertains to income from overseeing the construction of buildings, building maintenance, aircon cleaning and maintenance, asset and property management
Charges	**5,609,061**		
Collections	**5,609,061**		
Rental Income		**-**	This pertains to the rental fee for the building
Charges	**24,967,786**		
Collections	**24,967,786**		
Rental Expense		**-**	This pertains to rental of computer desktop
Charges	**379,139**		
Collections	**379,139**		

December 31, 2020

	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts Receivable		₱ 155,337	These are the facilitation for the construction of building, building maintenance, aircon cleaning and maintenance, asset and property management
Charges	₱ 7,404,658		
Collections	7,249,321		
Accounts Payable		-	These pertain to the balance for the purchase of property in Gensan
Charges	6,626,865		
Payments	6,626,865		
Service Income		-	This pertains to income from overseeing the construction of buildings, building maintenance, aircon cleaning and maintenance, asset and property management
Charges	6,515,178		
Collections	6,515,178		
Rental Income		-	This pertains to the rental fee for the building
Charges	21,692,979		
Collections	21,692,979		
Rental Expense		-	This pertains to rental of computer desktop
Charges	788,950		
Collections	788,950		

c. Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any director of the Company.

The compensation of key management personnel includes all form of consideration paid, payable, or provided by the Company. This amounted to ₱602,425 and ₱602,425 in 2021 and 2020, respectively.

The Company did not have post-employment benefits, other long-term benefits, termination benefits, and share-based payment.

22. Retirement Benefits

The Company, CARD, Inc., CARD Bank, Inc., CARD SME Bank, Inc., CARD MRI Rizal Bank, Inc., CARD MRI Development Institute, Inc., CARD Mutual Benefit Association, Inc., CARD MRI Insurance Agency, CARD MRI Information Technology, Inc., CARD Employees Multi-Purpose Cooperative, Responsible Investments for Solidarity and Empowerment Financing Co., BotiCARD, Inc., CARD Leasing and Finance Corporation, CARD-Business Development Service Foundation, Inc., Mga Likha ni Inay, Inc., CARD MRI Hijos Tours, Inc., and CARD MRI Publishing House, Inc. maintain a funded and formal noncontributory defined benefit retirement plan - the MERP - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2017. MERP is valued using the projected unit cost method and is financed solely by the Group and its related parties.

MERP comply with the requirements of Republic Act No. 7641 (Retirement Law). MERP 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 100.00% of the member's employer accumulated value (the Bank's contributions of 8.0% plan salary to Fund A plus credited earnings) and 100.0% of the Member's Employee accumulated value (member's own contributions up to 10.0% of plan salary to Fund B plus credited earnings), if any. Provided that in no case shall 100.0% of the Employee Accumulated Value in Fund A be less than 100.0% of plan salary for every year of credited service.

The latest actuarial valuation report covers reporting period as of December 31, 2021 and 2020.

The movements in the present value of pension obligation follows:

		2021		2020
Balance at the beginning of the year	₱	**(4,283,746)**	₱	(3,837,634)
Current service cost		**(217,890)**		(206,465)
Interest expense		**(148,646)**		(206,048)
Benefits paid from Plan assets		**1,527,095**		-
Transfer to the Plan		**(3,443,241)**		(58,589)
Actuarial loss		**3,272,115**		24,990
Balance at the end of the year	₱	**(3,294,313)**	₱	(4,283,746)

The movements in the fair value of plan assets follows:

		2021		2020
Balance at the beginning of the year	₱	**915,298**	₱	798,408
Interest income		**67,591**		45,044
Transfer to the Plan		**3,443,241**		58,589
Benefits paid from Plan assets		**(1,527,095)**		-
Contributions		**148,998**		19,100
Return on plan assets		**(36,311)**		(5,843)
Balance at the end of the year	₱	**3,011,722**	₱	915,298

The actual return on plan assets:

		2021		2020
Interest income	₱	**67,591**	₱	45,044
Remeasurement loss		**(36,311)**		(5,843)
Actual return	₱	**31,280**	₱	39,201

The amounts recognized in the statement of financial position follows:

		2021		2020
Fair value of plan assets	₱	**3,011,722**	₱	915,298
Present value of defined benefit obligation		**(3,294,313)**		(4,283,746)
Retirement liability	₱	**(282,591)**	₱	(3,368,448)

The retirement expense recognized in profit or loss:

		2021		2020
Current service cost	₱	**217,890**	₱	206,048
Net interest		**81,055**		161,421
	₱	**298,945**	₱	367,469

The retirement cost recognized in Other Comprehensive Income follows:

		2021		2020
Cumulative loss in OCI, beginning	₱	**2,977,658**	₱	2,996,805
Actuarial gain		**(3,272,115)**		(24,990)
Remeasurement loss - plan assets		**36,311**		5,843
	₱	**(258,146)**	₱	2,977,658

The movements in the net retirement liability follows:

		2021		2020
Balance at the beginning of the year	₱	**3,368,448**	₱	3,039,226
Retirement expense recognized in P&L		**298,945**		367,469
Retirement expense recognized in OCI		**(3,235,804)**		(19,147)
Contributions		**(148,998)**		(19,100)
Balance at the end of the year	₱	**282,591**	₱	3,368,448

The allocation of plan assets is as follows:

	2021	2020
Cash and cash equivalents	**40.74%**	46.28%
Debt instruments - government bonds	**42.95%**	41.05%
Debt instruments - other bonds	**5.58%**	1.53%
Other investments - loans receivables	**8.46%**	0.00%
Other (Market gain/loss, accr. receivables net of payables, etc.)	**2.27%**	11.14%
	100.00%	100.00%

Cash and cash equivalents are deposited in reputable financial institutions and related parties and are deemed to be standard grade. 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 actuarial assumptions used in determining pension for the retirement plan are shown below:

	2021	2020
Discount rate	**5.04%**	3.47%
Salary increase rate	**5.00%**	3.00%

The weighted average duration of the defined benefit obligation at the end of the reporting period is 10.5 and 7.4 years, respectively.

23. Financial Instruments

The Company’s financial assets and liabilities are recognized initially at cost which is the fair value of the consideration given (in the case of assets) or received (in the case of liability).

Fair values are determined by reference to market-based evidence, which is the amount for which the financial assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction as of the valuation date.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position (or in the detailed analysis provided in the notes to the financial statements).

The following tables set forth the carrying values and estimated fair values of the Company’s financial assets and liabilities recognized as of December 31, 2021 and 2020, respectively:

	2021		2020	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
Cash on hand and in banks	**₱ 25,548,177**	**₱ 25,548,177**	₱ 6,359,034	₱ 6,359,034
Loan and other receivable	**786,978**	**786,978**	2,326,639	2,326,639
Equity instruments at FVOCI	**10,020,764**	**10,020,764**	8,736,569	8,736,569
	₱ 36,355,919	**₱ 36,355,919**	₱ 17,422,242	₱ 17,422,242
Financial liabilities:				
Current liabilities	**₱ 7,179,325**	**₱ 7,179,325**	₱ 7,520,361	₱ 7,520,361
Loans payable	**25,827,012**	**25,827,012**	48,009,247	48,009,247
Other liabilities	**3,711,592**	**3,711,592**	3,598,938	3,598,938
	₱ 36,717,929	**₱ 36,717,929**	₱ 59,128,547	₱ 59,128,547

Due to the nature of these financial instruments, their fair values approximate the carrying values as of the reporting date.

24. Subsequent Event

a. CREATE Act

On March 26, 2021, the Republic Act (RA) 11534, known as "The Corporate Recovery or Tax incentives for Enterprises Act" (Create Act), was passed into law. The salient provisions of the Create Act applicable to the Company are as follow:

- Effective July 1, 2020, the corporate income tax rate is reduced from 30% to 20% 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 taxable year for which the tax is imposed at 20%. All other domestic corporations and resident foreign corporations will be subject to 25% income tax;
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% effective July 1, 2020, to June 20, 2023;
- The imposition of improperly accumulated earnings is repealed.

The effect of the changes mentioned above are shown below:

	As of December 31, 2020	Effect of changes in tax rates	Adjusted amount based on the reduced tax rates
Statement of Comprehensive Income			
Current tax expense	₱ 441,094	₱ (38,249)	₱ 402,845
Net loss after income tax for the year	257,056	38,249	295,305
Statement of Financial Position			
Prepaid income tax	1,346,294	38,249	1,384,543
Statement of Changes in Equity			
Retained earnings	1,578,629	38,249	1,616,879

b. COVID-19 Impacts and Subsequent Events

Since December 31, 2019 to December 31, 2021, the spread of COVID-19 has severely impacted many economies around the globe. In many countries, businesses were forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. In the Philippines, varying quarantine measures were implemented beginning on March 17, 2020.

The Company's management has assessed and addressed the impacts of COVID-19. As of December 31, 2021 and 2020, all COVID-19 determinable impacts on the Company's 2021 and 2020 financial statements, as well as other subsequent events, that are adjusting events have been adjusted. Other determinable subsequent events that were not adjusting events have been disclosed as needed.

Uncertainties due to COVID-19 still exist as the pandemic continues. Even so, management confirms the validity of the going concern assumption for the Company. The Company has adequate funds and liquidity for its subsequent operations.

25. Approval of the Financial Statements

The accompanying financial statements were approved and authorized for issuance by the Board of Directors on April 9, 2022.

26. Supplementary Information Required by Bureau of Internal Revenue

I. Revenue Regulation (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued RR No. 15-2010 which prescribes additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the income tax returns. Under the said RR, companies are required to disclose, in addition to the disclosures mandated under PFRS and such other standards and/or conventions that may heretofore be adopted, in the Notes to Financial Statements, information on taxes, duties and license fees paid or accrued during the taxable year.

This supplementary information on taxes and licenses is presented for purposes of filing with the Bureau of Internal Revenue and is not required by the PFRS.

Following is the required information under RR 15-2010 for the year ended December 31, 2021:

a. Value-added tax

Output VAT	₱	**3,686,059**

The Company has VATable sales for the year ended December 31, 2021 that amounted to ₱30,717,154.

Input VAT	₱	**472,336**

The work forward analysis of the Company's Input VAT for its VATable purchases is as follows:

Balance at beginning of the year			₱	**1,909,080**
Add: Purchases or payments for:				
Goods (Domestic)	₱	225,754		**27,090**
Services (Domestic)		18,518,534		**2,222,225**
Less:				
Output VAT				**(3,686,059)**
Balance at end of the year			₱	**472,336**

b. Taxes and Licenses

Taxes, licenses and permit fees lodged under this account in the statement of comprehensive income for 2021 consist of:

Documentary stamp tax	₱	**203,658**
Land processing and property tax		**351,577**
Business permit and fees		**98,346**
Other registration fees		**13,833**
	₱	**667,414**

c. Withholding Taxes

The amount of withholding taxes paid/accrued for the year ended December 31, 2021:

		Paid		**Payable**
Tax on compensation and benefits	₱	**82,627**	₱	**20,454**
Expanded withholding tax		**372,965**		**26,273**
	₱	**455,592**	₱	**46,727**

d. Tax Assessments and Cases

In 2021, the Company paid assessed deficiency taxes (Value-Added Tax, Income Tax, Expanded Withholding Tax, and Documentary Stamp Tax) for the taxable year 2018 that amounted to ₱1,353,639, including interest and penalties.

As of December 31, 2021, the Company has no pending deficiency tax assessments and has not been involved in any tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.