

# FRANCIA L. EUGENIO

Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT

840 Escueta St., San Antonio,  
Biñan, Laguna, Philippines

The Board of Directors and Stockholders  
**Eastwest Healthcare, Inc.**  
(Formerly Eastwest Business Solutions, Inc.)  
6th Floor, Makati Executive Center,  
114 Leviste St., Salcedo Village,  
Makati City

Email:  
[franceu@yahoo.com](mailto:franceu@yahoo.com)  
Contact No. 0917-8621-809

### Report on the Audit of the Company Financial Statements

#### Opinion

I have audited the financial statements of **Eastwest Healthcare, Inc.** (Formerly Eastwest Business Solutions, Inc.), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of financial performance, 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 my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### Basis for Opinion

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

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

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

In preparing the company 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 Company Financial Statements**

My objectives are to obtain reasonable assurance about whether the company 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 my 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 company financial statements.

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

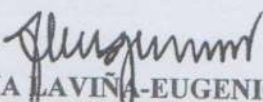
- Identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the company financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my 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 company financial statements, including the disclosures, and whether the company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.



## Report on the Supplementary Information Required Under Revenue Regulations 15-2010

My audits were conducted for the purpose of forming an opinion on the company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the company 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 **Eastwest Healthcare, Inc.** (Formerly Eastwest Business Solutions, Inc.). The information has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
**FRANCIA LAVIÑA-EUGENIO**  
CPA Certificate No. 0076270  
Tax Identification No. 109-342-403-000  
BOA Accreditation No. 1644

Issued September 24, 2020 valid until November 05, 2023  
PTR No. 1679928, January 06, 2022, City of Biñan, Laguna  
BIR Accreditation No. AN 09-003333-001-2021  
Issued December 21, 2021 valid until December 20, 2024  
IC Accreditation No. IA-2019-002-R  
Issued April 15, 2019 valid until April 14, 2022

April 05, 2022



08 APR 2022

**EASTWEST HEALTHCARE, INC.**  
**(Formerly Eastwest Business Solutions, Inc.)**  
**STATEMENTS OF FINANCIAL POSITION**



|                                   |      | December 31         |                     |
|-----------------------------------|------|---------------------|---------------------|
|                                   | Note | 2021                | 2020                |
| <b>ASSETS</b>                     |      |                     |                     |
| <b>Current Assets</b>             |      |                     |                     |
| Cash in banks and on hand         | 5    | ₱157,004,096        | ₱232,282,178        |
| Trade and other receivables - net | 6    | 51,696,308          | 63,456,948          |
| Available-for-sale investments    | 7    | 327,597,785         | 91,977,696          |
| Other current assets              | 8    | 6,891,590           | 5,482,123           |
| <b>Total Current Assets</b>       |      | <b>543,189,779</b>  | <b>393,198,945</b>  |
| <b>Noncurrent Assets</b>          |      |                     |                     |
| Property and equipment - net      | 9    | 27,288,812          | 20,137,905          |
| Other investment                  | 10   | 7,712,002           | 7,712,002           |
| Other noncurrent assets           | 11   | 19,682,156          | 19,602,156          |
| <b>Total Noncurrent Assets</b>    |      | <b>54,682,970</b>   | <b>47,452,063</b>   |
| <b>TOTAL ASSETS</b>               |      | <b>₱597,872,749</b> | <b>₱440,651,008</b> |

**LIABILITIES AND STOCKHOLDERS' EQUITY**

|  |    |                     |                     |
|--|----|---------------------|---------------------|
| <b>Current Liabilities</b>                   |    |                     |                     |
| Claims payable and other current liabilities | 12 | ₱431,363,675        | ₱362,005,055        |
| <b>Noncurrent Liabilities</b>                |    |                     |                     |
| Advances from stockholders                   | 13 | 2,037,250           | -                   |
| Retirement benefits liability                | 14 | 16,246,174          | 33,188,369          |
| <b>Total Noncurrent Liabilities</b>          |    | <b>18,283,424</b>   | <b>33,188,369</b>   |
| <b>Total Liabilities</b>                     |    | <b>449,647,099</b>  | <b>395,193,424</b>  |
| <b>Stockholders' Equity</b>                  |    |                     |                     |
| Share capital                                | 15 | 75,001,000          | 75,001,000          |
| Retirement reserves                          |    | 21,119,762          | (2,650,868)         |
| Fair value reserves                          |    | 7,124,700           | 7,124,700           |
| Retained earnings - Unappropriated (Deficit) |    | 19,980,188          | (34,017,248)        |
| Retained earnings - Appropriated             | 15 | 25,000,000          | -                   |
| <b>Total Stockholders' Equity</b>            |    | <b>148,225,650</b>  | <b>45,457,584</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>          |    | <b>₱597,872,749</b> | <b>₱339,468,946</b> |

*See Notes to the Financial Statements.*



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**EASTWEST HEALTHCARE, INC.**  
**(Formerly Eastwest Business Solutions, Inc.)**  
**STATEMENTS OF COMPREHENSIVE INCOME**

|   |      | Years Ended December 31 |              |
|---|------|-------------------------|--------------|
|   | Note | 2021                    | 2020         |
| <b>REVENUES</b>   |      |                         |              |
| Membership fees   |      | ₱697,868,705            | ₱715,834,405 |
| Administration fees   |      | 4,046,324               | 83,081,098   |
| Decrease (increase) in UPR reserves                                       | 12   | 15,411,748              | (21,253,088) |
| Decrease (Increase) in UAFR   | 12   | 352,702                 | -            |
|   |      | 717,679,479             | 777,662,415  |
| <b>COSTS AND EXPENSES</b>   |      |                         |              |
| Healthcare benefits and claims  | 16   | 460,143,705             | 590,667,730  |
| Selling, administrative and general expenses                              | 17   | 164,125,933             | 130,595,840  |
|   |      | 624,269,638             | 721,263,570  |
| <b>OPERATING INCOME</b>   |      | 93,409,841              | 56,398,845   |
| <b>OTHER INCOME</b>   |      |                         |              |
| Interest income   |      | 1,395,518               | 287,727      |
| Others expenses   |      | (13,306)                | (13,537)     |
| Penalties   |      | (6,420,205)             | (62,585)     |
|   |      | (5,037,993)             | 211,605      |
| <b>INCOME BEFORE INCOME TAX</b>   |      | 88,371,848              | 56,610,450   |
| <b>INCOME TAX EXPENSE</b>   |      |                         |              |
| Current   | 18   | 11,729,106              | 26,178,808   |
| Deferred  |      | -                       | -            |
|   |      | 11,729,106              | 26,178,808   |
| <b>NET INCOME</b>   |      | 76,642,742              | 30,431,642   |
| <b>OTHER COMPREHENSIVE INCOME</b>   |      |                         |              |
| <b>Item that will never be reclassified to profit or loss</b>             |      |                         |              |
| Re-measurement gain (loss) on retirement benefits                         | 14   | 23,770,630              | (4,232,559)  |
| <b>Item that is or may be reclassified subsequently to profit or loss</b> |      |                         |              |
| Unrealized gain on AFS investments  | 7    | -                       | 643,059      |
|   |      | 23,770,630              | (3,589,500)  |
| <b>TOTAL COMPREHENSIVE INCOME</b>   |      | ₱100,413,372            | ₱26,842,142  |

*See Notes to the Financial Statements.*



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**EASTWEST HEALTHCARE, INC.**  
**(Formerly Eastwest Business Solutions, Inc.)**  
**STATEMENTS OF CHANGES IN EQUITY**

| Years Ended December 31  |       |                    |                        |                        |                                   |                     |
|--|-------|--------------------|------------------------|------------------------|-----------------------------------|---------------------|
|  | Note  | Share capital      | Retirement<br>Reserves | Fair value<br>reserves | Retained<br>Earnings<br>(Deficit) | Total               |
| <b>Balances at December 31, 2020</b>                           |       | <b>₱75,001,000</b> | <b>(₱2,650,868)</b>    | <b>₱7,124,700</b>      | <b>(₱34,017,248)</b>              | <b>₱45,457,584</b>  |
| Capital paid in excess of par                                  | 15    | -                  | -                      | -                      | -                                 | -                   |
| <b>Total comprehensive income for year 2021</b>                |       |                    |                        |                        |                                   |                     |
| Net income   |       | -                  | -                      | -                      | 76,642,742                        | 76,642,742          |
| Other comprehensive income                                     | 7, 14 | -                  | 23,770,630             | -                      | -                                 | 23,770,630          |
| Prior period adjustments                                       |       | -                  | -                      | -                      | 2,354,694                         | 2,354,694           |
|  |       | <b>75,001,000</b>  | <b>21,119,762</b>      | <b>7,124,700</b>       | <b>44,980,188</b>                 | <b>148,225,650</b>  |
| <b>Transactions with owners of the Company</b>                 |       |                    |                        |                        |                                   |                     |
| Issuance of shares of stocks                                   |       | -                  | -                      | -                      | -                                 | -                   |
| Issuance of shares of stocks through conversion of liabilities |       | -                  | -                      | -                      | -                                 | -                   |
| Issuance of shares of stocks through stock dividends           |       | -                  | -                      | -                      | -                                 | -                   |
|  |       | -                  | -                      | -                      | -                                 | -                   |
| <b>Balances at December 31, 2021</b>                           |       | <b>₱75,001,000</b> | <b>₱21,119,762</b>     | <b>₱7,124,700</b>      | <b>₱44,980,188</b>                | <b>₱148,225,650</b> |

Years Ended December 31

|  | Note  | Share capital | Retirement<br>Reserves | Fair value<br>reserves | Deficit       | Total        |
|--|-------|---------------|------------------------|------------------------|---------------|--------------|
| Balances at December 31, 2019                                  |       | P75,001,000   | P1,581,691             | P6,481,641             | (P46,835,891) | P36,228,441  |
| Capital paid in excess of par                                  | 15    | -             | -                      | -                      | -             | -            |
| Total comprehensive income for year 2020                       |       |               |                        |                        |               |              |
| Net income   |       | -             | -                      | -                      | 30,431,642    | 30,431,642   |
| Other comprehensive income                                     | 7, 14 | -             | (4,232,559)            | 643,059                | -             | (3,589,500)  |
| Prior period adjustment  |       | -             | -                      | -                      | (17,612,999)  | (17,612,999) |
|  |       | 75,001,000    | (2,650,868)            | 7,124,700              | (34,017,248)  | 45,457,584   |
| Transactions with owners of the Company                        |       |               |                        |                        |               |              |
| Issuance of shares of stocks                                   |       | -             | -                      | -                      | -             | -            |
| Issuance of shares of stocks through conversion of liabilities |       | -             | -                      | -                      | -             | -            |
| Issuance of shares of stocks through stock dividends           |       | -             | -                      | -                      | -             | -            |
|  |       | -             | -                      | -                      | -             | -            |
| Balances at December 31, 2020                                  |       | P75,001,000   | (P2,650,868)           | P7,124,700             | (P34,017,248) | P45,457,584  |



**EASTWEST HEALTHCARE, INC.**  
**(Formerly Eastwest Business Solutions, Inc.)**  
**STATEMENTS OF CASH FLOWS**

|   |             | <b>Years Ended December 31</b> |                     |
|---|-------------|--------------------------------|---------------------|
|   | <i>Note</i> | <b>2021</b>                    | <b>2020</b>         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |             |                                |                     |
| Income before income tax                      |             | <b>₱88,371,848</b>             | <b>₱56,610,450</b>  |
| Adjustment for:                               |             |                                |                     |
| Retirement expense                            | 14          | <b>6,828,435</b>               | <b>5,795,492</b>    |
| Depreciation and amortization                 | 9, 17       | <b>7,207,936</b>               | <b>1,518,193</b>    |
| Interest income                               | 5           | <b>(1,395,518)</b>             | <b>(287,727)</b>    |
| Income before working capital changes         |             | <b>101,012,701</b>             | <b>63,636,408</b>   |
| Decrease (increase) in:                       |             |                                |                     |
| Trade and other receivables - net             | 6           | <b>11,760,640</b>              | <b>112,997,203</b>  |
| Other current assets                          | 8           | <b>(1,409,467)</b>             | <b>(2,052,805)</b>  |
| Increase (decrease)                           |             |                                |                     |
| Claims payable and other current liabilities  | 12          | <b>69,358,620</b>              | <b>81,924,868</b>   |
| Advances from stockholders                    | 13          | <b>2,037,250</b>               | <b>-</b>            |
| Net cash generated from operations            |             | <b>182,759,744</b>             | <b>256,505,674</b>  |
| Provision for income tax                      |             | <b>(11,729,106)</b>            | <b>(26,178,808)</b> |
| Interest received                             |             | <b>1,395,518</b>               | <b>287,727</b>      |
| Net cash from operating activities            |             | <b>172,426,156</b>             | <b>230,614,593</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |             |                                |                     |
| Acquisition of available-for-sale investments | 7           | <b>(460,353,559)</b>           | <b>(44,967,964)</b> |
| Disposal of available -for-sales investments  |             | <b>224,733,470</b>             | <b>10,000,000</b>   |
| Acquisitions of property and equipment        | 9           | <b>(14,358,843)</b>            | <b>(17,623,504)</b> |
| Increase in other noncurrent assets           | 11          | <b>(80,000)</b>                | <b>(99,220)</b>     |
| Net cash used in investing activities         |             | <b>(250,058,932)</b>           | <b>(52,690,688)</b> |
| <b>CASH FLOW FROM FINANCING ACTIVITY</b>      |             |                                |                     |
| Prior period adjustments                      |             | <b>2,354,694</b>               | <b>(17,612,999)</b> |
| NET INCREASE (DECREASE) CASH                  |             | <b>(75,278,082)</b>            | <b>160,310,906</b>  |
| CASH AT BEGINNING OF YEAR                     |             | <b>232,282,178</b>             | <b>71,971,272</b>   |
| CASH AT END OF YEAR                           |             | <b>₱157,004,096</b>            | <b>₱232,282,178</b> |

*See Notes to the Financial Statements.*



**EASTWEST HEALTHCARE, INC.**  
**(Formerly Eastwest Business Solutions, Inc.)**  

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**NOTES TO THE FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Eastwest Healthcare, Inc. ("the Company") was incorporated in the Philippines with the Securities and Exchange Commission (SEC) on August 22, 2006 as Eastwest Business Solutions, Inc. On October 1, 2008, the Company changed its corporate name to Eastwest Healthcare, Inc. which was approved by the SEC on December 12, 2008.

The Company was organized to primarily engage to maintain conduct and operate a prepaid group practice health care delivery system or a health maintenance organization to take care of the sick, diseased and disabled persons who are enrolled in the health care plan and to provide for the administrative and financial responsibilities of the organization. It also manages outsourced business in the areas of company employee benefit administration.

On November 12, 2015, Executive Order No. 192 was approved and signed by the President of the Philippines, transferring the regulation and supervision over health maintenance organizations from the Department of Health to the Insurance Commission(IC). On December 22, 2020, IC issued Certificate of Registration No. HMO-2020-18-R, hereby licensing the Company to operate and act as a Health Maintenance Organization. The certificate is valid until December 31, 2022.

The Company's principal office is located at the 6th Floor, Makati Executive Center, 114 Leviste St., Salcedo Village, Makati City.

The Company reported a stockholders' equity amounting to ₱148,225,650 and ₱45,457,584 as at and for the years ended December 31, 2021 and 2020, respectively, as a result of recognition of non-cash provisions amounting to ₱401,807,535 and ₱341,403,196 as at December 31, 2021 and 2020, as mandated by the IC (see Note 12). Further, the Company recognized retirement liability amounting to ₱16,246,174 and ₱33,188,369 as at December 31, 2021 and 2020, respectively, for the accrual of retirement expenses (see Note 14). The Company generated net income in 2021 and 2020 amounting to ₱76,642,742 and ₱30,431,642, respectively. Management expects the Company to generate positive results in the future which will eventually wipe out the deficit.

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**2. Basis of Preparation**

Statement of Compliance

Management assessed that the Company is no longer qualified to use the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs) as basis in preparing its financial statements as the Company is a holder of secondary license issued by the Insurance Commission. Accordingly, the Company prepared its financial statements in compliance with Philippine Financial Reporting Standards (PFRS) as at and for the year ended December 31, 2017. PFRS is based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations based on the International Financial Reporting Interpretations Committee (IFRIC) interpretations.



The Company applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the accompanying financial statements, with January 1, 2015 as the date of transition. The Company applied the accounting policies set forth in Note 3 to the financial statements.

The change in the basis of preparation of the financial statements from PFRS for SMEs to full PFRS has no significant impact on the financial position of the Company as at December 31, 2015, or the financial performance and cash flows of the Company for the year then ended. The disclosure requirements under full PFRS have been included in the financial statements to all years presented.

#### Basis of Measurement

The financial statements have been prepared on a historical cost basis of accounting, except for available-for-sale (AFS) investments which are measured at fair value and retirement benefits liability which is recognized on the present value of the defined benefit obligation.

#### Functional and Presentation Currency

The financial statements are presented in Philippine peso which is the Company's functional currency. All financial information presented in Philippine peso has been rounded to the nearest peso, except when otherwise indicated.

#### Authorization for Issuance of the Financial Statements

The Company's financial statements as at and for the years ended December 31, 2021 and 2020 were approved and authorized for issue by the Company's Board of Directors (BOD) and stockholders on March 18, 2022.

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### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

#### Financial Instruments

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

Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at FVPL, the initial measurement of financial instruments includes transaction costs. Subsequent to initial recognition, the Company classifies its financial assets into the following categories: financial assets at FVPL, AFS investments, HTM investments and loans and receivables. The Company classifies its financial liabilities either as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the instruments were acquired or incurred and whether these are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and where allowed and appropriate, re-evaluates such designation at every reporting date.

The Company has no HTM investments, FVPL financial assets and liabilities as at December 31, 2021 and 2020.



*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term sale and are not designated as AFS or financial assets at FVPL.

Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized in profit or loss on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on the acquisition and fees that are an integral part of the effective interest rate (EIR). The periodic amortization is also included in profit or loss. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks and is stated at its face amount.

The Company's cash, receivables, refundable cash bonds, security deposits and rental deposits are included in this category.

*AFS Investments.* AFS investments are financial assets which are designated as such, or do not qualify to be classified or have not been classified under any other financial asset category. They are purchased and held indefinitely and maybe sold in response to liquidity requirements or changes in market conditions.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on AFS debt instruments, are recognized in other comprehensive income and presented in the fair value reserves in equity. When an investment is derecognized, the gain or loss accumulated in equity is transferred to profit or loss. Interest earned on the investments is reported as interest income using the effective interest method. Dividends earned on the investments are recognized in the statements of comprehensive income as "Dividend income" when the right of payment has been established. AFS investments are classified as noncurrent assets unless there is intention to dispose of such assets within twelve (12) months of the financial reporting date.

The Company's unit investment trust funds (UITFs) are classified as AFS investments. (see Note 7)

*Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated at FVPL at the inception of the liability. Financial liabilities at amortized cost are contractual obligations which are either 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 Company. They are included in current liabilities except for maturities greater than twelve (12) months after the reporting date which are classified as noncurrent liabilities. These include liabilities arising from operations or borrowings.

After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the EIR of the liability.

The Company's accounts payable and other current liabilities are included in this category.



Impairment of Financial Assets

The Company assesses at reporting date whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

*Assets Carried at Amortized Cost.* For assets carried at amortized cost such as loans and receivables, the Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a significant financial asset that was individually assessed, the Company includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective assessment of impairment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower.

For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The impairment loss for the period shall be recognized in profit or loss. 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. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

*AFS Investment.* For equity instruments carried at fair value, the Company assesses whether objective evidence of impairment exists. Objective evidence of impairment includes a significant or prolonged decline in the fair value of an equity instrument below its cost. 'Significant' is evaluated against the original cost of investment and 'prolonged' is evaluated against the period in which the fair value has been below its original cost. The Company generally regards fair value decline as being significant when the decline exceeds 25%. A decline in a quoted market price that persists for 12 months is generally considered to be prolonged.



If an AFS investment is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

#### Offsetting Financial Instruments

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

#### Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

#### Fair Value Measurement

The Company measures a number of financial and nonfinancial assets and liabilities at fair value.

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 and the measurement date. The fair value 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



principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Company.

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

The 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 prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For purposes of the fair value disclosure, 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.

#### Prepaid Rent and Other Prepayments

Prepaid rent and other prepayments are recognized in the statement of financial position when it is probable that future economic benefit will flow to the Company and the amounts can be measured reliably. Prepaid rent and other prepayments are amortized over the period for which the expenses are incurred and recognized in the statement of comprehensive income.

#### Creditable Withholding Tax

Creditable withholding tax pertains to the tax withheld at source by the Company's customer and is creditable against the income tax liability of the Company.

#### Value-added Tax (VAT)

The input VAT pertains to the 12% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.

Output VAT pertains to the 12% tax due to on the local sale of goods or services by the Company.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any.



Initially, an item of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent expenditures that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset, in excess of the originally assessed standard of performance, will flow to the Company. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Depreciation is computed using the straight-line method over the based on the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of the improvements or the term of the lease, whichever is shorter. The estimated useful lives are as follows:

|                                | Number of Years                             |
|--------------------------------|---|
| Transportation equipment       | 3 to 5                                      |
| Office furniture and equipment | 3 to 5                                      |
| Leasehold improvements         | 5 years or lease term, whichever is shorter |

The assets' residual values, useful lives and depreciation and amortization method are reviewed periodically to ensure that the residual values, periods of depreciation and amortization and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and accumulated impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

#### Computer Software

Computer software is stated at cost less accumulated amortization and impairment in value, if any. Acquired computer software is capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is capitalized and added to the original cost of the software. Computer software development costs recognized as asset are amortized using the straight-line method over three years.

#### Impairment of Nonfinancial Assets

The carrying amounts of nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in profit or loss if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of a nonfinancial asset is the greater of the asset's fair value less costs of disposal or value in use. The 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 measurement date. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

#### Unearned Membership Fee

The portion of written premiums is deferred as unearned membership fee under "Accounts payable and other current liabilities" account in the statement of financial position. The change in the provision for unearned membership fee is taken to profit or loss in the order that revenue is recognized over the period of policy.

#### Incurred But Not Reported Claims (IBNR)

Incurred but not reported claims are based on the estimated cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs. These costs include estimates of the Company's obligation for medical care services that have been rendered on behalf of the members but for which the Company has either not yet received or processed claims, and for liabilities for physician, medical and other cost disputes. The Company develops estimates for medical costs incurred but not yet received using an actuarial process. The actuarial models consider factors such as time from the date of services to claims receipts, claim backlogs and other factors affecting the claims amount such as provider contract rate changes, medical care consumption and other medical cost trends. IBNR is presented as "Claims liabilities" under "Accounts payable and other current liabilities" account in the statement of financial position.

#### Due & Unpaid (D&U) Claims

Provision for claims that have been reported, adjudicated and processed, but for which final payment has not been recorded as of valuation date.

#### In Course Of Settlement (ICO'S)

Refers to the liabilities for claim already known and identified but not yet adjudicated, settled and paid by the company as of valuation date.

#### Claims Handling Expense Reserve

Refers to the estimated amount of expenses for settling all claims, whether reported or unreported, outstanding as of valuation date. In the absence of the analysis of the company's expenses by function, this is just approximated as the same percentage of claims applied to the ASO accounts for claims administration.



Retirement Benefit Liability

The Company's obligation in respect of the retirement benefit liability is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net retirement benefits liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net retirement benefits liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in statement of comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in statement of comprehensive income at the earlier of the following:

- when the related restructuring costs are recognized;
- when the related termination benefits are recognized; and
- when the plan amendment or curtailment occurs.

The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Share Capital

Share capital is classified as equity. Incremental costs directly attributable to the issuance of share capital are recognized as a deduction from equity, net of any tax effects.

Deficit

Deficit represents the cumulative balance of periodic profit/loss, dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments, if any.

Dividend distribution to the Company's shareholder is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's BOD.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Flexi-Health Membership Fees*

Flexi-Health Membership Fees are recognized over the term of the contract. The uncollected fees apart form part of the receivables while collected fees not yet recognized as revenue are credited to "Unearned membership fee" account and presented in the liability section of the statement of financial position.

*Third Party Administration Fund Fees and Administrative Fees*

Revenue is recognized over the period in which the related services are performed. Members and/or dependents are charges for healthcare administration services, cost of health services and other contract fees. These fees shall be exclusively used to pay health

benefits of members and/or dependent and the Company's administrative and other services' fees. "Unearned membership fee" account is maintained pertaining to fund of members and/or dependent which are administered by the Company.

*Interest Income*

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset, and is presented net of final tax.

*Other Income*

Other income is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability and that can be measured reliably.

Cost and Expense Recognition

Costs and expenses are decrease in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Costs and expenses are recognized in profit or loss when they are incurred and are reported in the financial statements in the periods to which they relate.

*Direct Cost of Services*

Direct cost of services are healthcare benefits and claims for medical services and hospitalization, management fees, commissions and other costs and expenses related to healthcare services are recognized when the services are rendered or the expenses are incurred.

*Selling, Administrative and General Expenses*

Selling expenses are costs associated with marketing promotion activities and all expenses connected with selling, servicing and distributing Company products. General and administrative expenses constitute costs of administering the business. Selling, general and administrative expenses are recognized when the services are rendered or expenses are incurred.

Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;



- b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. There is a change in determination of whether fulfillment is dependent on a specified asset; or
- d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

#### Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

#### *Current Tax*

Current tax is the expected tax payable on the taxable income for the year, using tax rates and tax laws enacted or substantively enacted at the end of the reporting date, and any adjustment to tax payable in respect of previous years.

#### *Deferred Tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the minimum corporate income tax (MCIT). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

#### Related Party Relationships and Transactions

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



Provisions

Provisions are recognized when the Company has a present legal or constructive obligation 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 interest expense. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements in the periods in which the change occurs.

Events After the Reporting Date

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

Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2016. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

Effective January 1, 2017

- *Disclosure initiative (Amendments to PAS 7).* The amendments address financial statements users' requests for improved disclosures about an entity's net debt relevant to understanding an entity's cash flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes - e.g. by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted. When an entity first applies the amendments, it is not required to provide comparative information for preceding periods.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to PAS 12).* The amendments clarify that:



- the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset;
- the calculation of future taxable profit in evaluating whether sufficient taxable profit will be available in future periods excludes tax deductions resulting from the reversal of the deductible temporary differences;
- the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and
- an entity assesses a deductible temporary difference related to unrealized losses in combination with all of its other deductible temporary differences, unless a tax law restricts the utilization of losses to deduction against income of a specific type.

The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2017. Early adoption is permitted. On initial application, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If an entity applies the relief, it shall disclose that fact.

- *Annual Improvements to PFRSs 2014 – 2016 Cycle.* This cycle of improvements contains amendments to three standards. The following are the said improvements or amendments to PFRSs effective for annual periods beginning on or after January 1, 2017, none of which has a significant effect on the financial statements of the Company:
- *Clarification of the scope of the standard (Amendments to PFRS 12).* The amendments clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. The amendments are applied retrospectively, with early application permitted.

#### *Effective January 1, 2018*

- *PFRS 9 Financial Instruments (2014).* PFRS 9 (2014) replaces PAS 39 *Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the potential impact on its financial statements resulting from the application of PFRS 9.

- *PFRS 15 Revenue from Contracts with Customers* replaces PAS 11 *Construction Contracts*, PAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programs*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers



which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently assessing the potential impact of PFRS 15 and plans to adopt this new standard on the required effective date.

*Effective January 1, 2019*

- *PFRS 16 Leases* supersedes *PAS 17 Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of PFRS 16. The Company is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date.

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#### **4. Significant Judgments, Estimates and Assumptions**

The preparation of the financial statements in conformity with PFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the amounts reported in the financial statements. The estimates and assumptions used in preparing the financial statements are based on management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results may differ from these estimates.

Judgments, estimates and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.



*Judgments*

In the process of applying the Company's accounting policies, management has made the judgment below, apart from those involving estimations, that has the most significant effect on the amounts recognized in the financial statements.

*Classification of Financial Instruments*

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

In addition, the Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

*Fair Value of Financial Instruments*

Where the fair values of assets and liabilities recognized or disclosed in financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values.

The methods and assumptions used to estimate fair values for both financial and nonfinancial assets and liabilities are discussed in Note 3. Fair values of financial assets and financial liabilities are disclosed in Note 20.

*Determining Whether an Arrangement Contains a Lease*

The Company uses its judgment in determining whether an arrangement contains a lease, based on the substance of the arrangement at inception date, and makes assessment on whether the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Operating Lease*

The Company has entered into lease arrangements as a lessee. The Company has determined that the lessors retain all the risks and rewards of ownership on the leased assets, thus, the said leases are classified as an operating lease.

Rent expense recognized in profit or loss by the Company for the years ended December 31, 2021 and 2020 amounted to ₱6,625,038 and ₱5,314,386, respectively (see Notes 17 and 19).

*Estimates*

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

*Estimating Allowance for Impairment Losses on Receivables*

The Company performs regular review of the age and status of its receivables, designed to



identify accounts with objective evidence of impairment and provides these with the appropriate allowance for impairment losses. The review is accomplished using a combination of specific and collective assessment approaches, with the impairment losses being determined for each risk grouping identified by the Company. The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses would increase the recorded operating expenses and decrease current assets.

As at December 31, 2021 and 2020, no allowance for impairment losses was provided as management deemed that all receivables are collectible. The carrying amount of receivables as at December 31, 2021 and 2020 amounted to ₱51,696,308 and ₱63,456,948 respectively (see Note 6).

*Estimating Useful Lives of Property and Equipment and Software*

The Company reviews at each reporting date the estimated useful lives (EUL) of property and equipment and software based on the period over which the assets' future economic benefits are expected to be utilized or consumed. These are revised if expectations differ from previous estimates due to physical wear and tear, and technical and commercial obsolescence.

In addition, estimation of the useful lives of property and equipment and software is based on collective assessment of industry practice, internal technical evaluation and experience with similar asset. It is possible however, that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the EUL of property and equipment and software would increase the recorded depreciation and amortization and decrease noncurrent assets.

The carrying amount of the Company's property and equipment amounted to ₱27,288,812 and ₱20,137,905 as at December 31, 2021 and 2020, respectively (see Note 9).

*Estimating Allowance for Impairment Losses on Nonfinancial Assets*

The Company assesses impairment on nonfinancial assets when events or changes in circumstances indicate that the carrying amount may not be recoverable.

The factors that the Company considers important which could trigger an impairment review include the following:

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

Determining the net recoverable amount of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the results of operations.



Management assessed that there are no impairment indicators affecting the Company's nonfinancial assets as at December 31, 2021 and 2020.

*Recognition of Deferred Tax Asset*

The Company reviews the carrying amount of deferred tax asset at each reporting date and reduces deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The Company also reviews the expected timing and tax rates upon reversal of the temporary difference and adjusts the impact of deferred tax accordingly. The Company's assessment on the recognition of deferred tax asset is based on the forecasted taxable income of the subsequent reporting periods. This forecast is based on the Company's past results and future expectations on revenues and expenses.

*Determination of estimated IBNR claims*

These costs are actuarially determined for future payments on claims that have been incurred but have not been reported to estimate the Company's obligation for medical care services that have been rendered to its members and re-opened claim disputes that may occur in the future. Procedures, data, and studies are under the review process of the engaged actuary to enable the Company to meet the requirements under the new regulation of the Commission.

Estimated IBNR claims are sensitive to the key assumptions pertaining to sensitivity of certain variables like uncertainty in the estimation process which is not possible to quantify. Furthermore, because of delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claims are not known with certainty at the reporting date. Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are to be recognized in subsequent financial statements.

As at and for the years ended December 31, 2021 and 2020, the Company recognized IBNR amounted to ₱61,124,683 and ₱111,135,501 respectively (see Note 12).

*Estimating Provisions and Contingencies*

The Company, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations, if any, in accordance with its policies on provisions and contingencies. In recognizing and measuring provisions, management takes risk and uncertainties into account.

The Company has not recognized any provision as at December 31, 2021 and 2020.

## 5. Cash in Banks and on Hand

This account consists of:

|               | 2021                | 2020                |
|---------------|---------------------|---------------------|
| Cash in banks | ₱156,877,116        | ₱232,155,198        |
| Cash on hand  | 126,980             | 126,980             |
|               | <b>₱157,004,096</b> | <b>₱232,282,178</b> |

Cash in banks earn interest at the respective bank deposit rates. Interest income earned on cash amounted to ₱1,395,518 and ₱287,727 in 2021 and 2020 net of final tax, respectively.

**6. Trade and Other Receivables - Net**

This account consists of:

|                                    | <i>Note</i> | 2021               | 2020               |
|------------------------------------|-------------|--------------------|--------------------|
| Managed Care Fund receivables      |             | <b>P50,383,171</b> | <b>P58,450,135</b> |
| Advances to officers and employees | 13          | <b>796,015</b>     | <b>398,727</b>     |
| Due from related parties           | 13          | <b>-</b>           | <b>1,026,043</b>   |
| Receivable - others                |             | <b>517,122</b>     | <b>3,582,043</b>   |
|                                    |             | <b>P51,696,308</b> | <b>P63,456,948</b> |

Managed Care Fund is mainly a fund covered by a Memorandum of Agreement (MOA) between the Company and its client. The Company bills its clients based on related MOA's schedule of benefits. It includes, among other things, utilization and administration provisions including riders noted. It is adjusted for any excess utilization (incurring more than what is stated in the schedule of benefits) by the client. Client's net excess utilization is presented as receivable in the statements of financial position.

Managed Care Fund receivables are noninterest-bearing from various customers, generally on 15 days term.

Advances to officers and employees are noninterest-bearing and are expected to be collectible within the next financial year.

Receivables from related parties are noninterest-bearing and collectible on demand.

Receivable - others consists of receivables from governments agencies.

**7. Available-for-sale Investments (AFS) Financial Assets**

The movements of the AFS investments are as follows:

|                                    | 2021                 | 2020                |
|------------------------------------|----------------------|---------------------|
| Balance at beginning of year       | <b>P91,977,696</b>   | <b>P56,366,673</b>  |
| Additions                          | <b>460,353,559</b>   | <b>44,967,964</b>   |
| Disposal                           | <b>(224,733,470)</b> | <b>(10,000,000)</b> |
| Unrealized gain in AFS investments | <b>-</b>             | <b>643,059</b>      |
| Balance at end of the year         | <b>P327,597,785</b>  | <b>P91,977,696</b>  |

The movements of the fair value reserves as at December 31 recognized as a separate component of equity are as follows:

|                              | 2021              | 2020              |
|------------------------------|-------------------|-------------------|
| Balance at beginning of year | <b>P7,124,700</b> | <b>P6,481,641</b> |
| Change in fair value         | <b>-</b>          | <b>643,059</b>    |
| Balance at end of the year   | <b>P7,124,700</b> | <b>P7,124,700</b> |



**8. Other Current Assets**

This account consists of:

|                                    | Note | 2021              | 2020       |
|------------------------------------|------|-------------------|------------|
| Guarantee deposits asset           |      | <b>₱3,169,551</b> | ₱1,769,551 |
| Prepaid rent and other prepayments |      | <b>1,179,240</b>  | 1,620,555  |
| Input VAT                          |      | <b>1,006,867</b>  | 1,598,601  |
| Bid bond                           |      | <b>725,554</b>    | 402,666    |
| Prepaid tax                        | 18   | <b>810,378</b>    | -          |
| Rental deposits                    | 19   | -                 | 90,750     |
|                                    |      | <b>₱6,891,590</b> | ₱5,482,123 |

**9. Property and Equipments - Net**

The movement of property and equipment are as follows:

| December 31, 2021                                |                                |                          |                        |              |             |
|--|--------------------------------|--------------------------|------------------------|--------------|-------------|
|  | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | IT Equipment | Total       |
| <b>Cost</b>                                      |                                |                          |                        |              |             |
| Beginning balance                                | ₱13,364,197                    | ₱11,175,076              | ₱3,810,246             | ₱5,117,994   | ₱33,467,513 |
| Additions  | 6,482,841                      | 3,747,921                | 2,302,413              | 1,825,668    | 14,358,843  |
| Balance at end of year                           | 19,847,038                     | 14,922,997               | 6,112,659              | 6,943,662    | 47,826,356  |
| <b>Accumulated Depreciation and Amortization</b> |                                |                          |                        |              |             |
| Beginning balance                                | 5,871,648                      | 5,108,012                | 984,577                | 1,365,371    | 13,329,608  |
| Depreciation and amortization                    | 3,339,340                      | 1,934,121                | 873,715                | 1,060,760    | 7,207,936   |
| Balance at end of year                           | 9,210,988                      | 7,042,133                | 1,858,292              | 2,426,131    | 20,537,544  |
| Net Book Value                                   | ₱10,636,050                    | ₱7,880,864               | ₱4,254,367             | ₱4,517,531   | ₱27,288,812 |

| December 31, 2020                                |                                |                          |                        |              |             |
|--|--------------------------------|--------------------------|------------------------|--------------|-------------|
|  | Office Furniture and Equipment | Transportation Equipment | Leasehold Improvements | IT Equipment | Total       |
| <b>Cost</b>                                      |                                |                          |                        |              |             |
| Beginning balance                                | ₱8,165,096                     | ₱4,944,943               | ₱931,555               | ₱1,802,415   | ₱15,844,009 |
| Additions  | 5,199,101                      | 6,230,133                | 2,878,691              | 3,315,579    | 17,623,504  |
| Balance at end of year                           | 13,364,197                     | 11,175,076               | 3,810,246              | 5,117,994    | 33,467,513  |
| <b>Accumulated Depreciation and Amortization</b> |                                |                          |                        |              |             |
| Beginning balance                                | 4,994,841                      | 4,944,942                | 836,309                | 1,035,323    | 11,811,415  |
| Depreciation and amortization                    | 876,807                        | 163,070                  | 148,268                | 330,048      | 1,518,193   |
| Balance at end of year                           | 5,871,648                      | 5,108,012                | 984,577                | 1,365,371    | 13,329,608  |
| Net Book Value                                   | ₱7,492,549                     | ₱6,067,064               | ₱2,825,669             | ₱3,752,623   | ₱20,137,905 |

Office unit transferred to other investments account with depreciation expense recognized for year ended December 31, 2018 in the amount of ₱686,807 and carrying amount of ₱7,712,002.

**10. Other Investments**

Other investments include acquisition of the Company's office and all related incidental cost incurred, comprises of its purchase price, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures which are not material in amount, incurred after the fixed assets have been put into operation, such as repairs and maintenance, are charged to current operations. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of other investment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of other investment.

**11. Other Noncurrent Assets**

|                          | 2021               | 2020               |
|--------------------------|--------------------|--------------------|
| Special deposit accounts | ₱15,438,469        | ₱15,358,469        |
| Refundable cash bonds    | 4,243,687          | 4,243,687          |
|                          | <b>₱19,682,156</b> | <b>₱19,602,156</b> |

Special deposit accounts consist of IC security deposit amounting ₱15,000,000 and ₱15,000,000 as of December 31, 2021 and 2020, respectively and security deposit amounting to ₱438,469 and ₱358,469 as of December 31, 2021 and 2020, respectively.

Refundable cash bonds are recoverable from the cash bond holders upon expiration of related contracts.

**12. Claims Payable and Other Current Liabilities**

The account consists of:

|   | 2021                | 2020                |
|---|---------------------|---------------------|
| Unearned membership fee                     | ₱191,419,337        | ₱206,831,085        |
| Manage care liability                       | 135,257,868         | -                   |
| Claim liabilities (IBNR)                    | 61,124,683          | 111,135,501         |
| In course of settlement liabilities (ICOS)  | 10,135,954          | 3,729,445           |
| ASO fund liabilities                        | 7,100,000           | -                   |
| Due and unpaid liabilities (D & U)          | 6,133,234           | 14,150,390          |
| Sales tax payable                           | 5,534,812           | 4,437,122           |
| Claims handling liabilities                 | 3,869,693           | 5,556,775           |
| Deferred tax liability                      | 3,291,298           | -                   |
| Administrative Service Only (ASO) Reserves  | 1,217,785           | 6,748,915           |
| Unearned Administrative Fee Reserves (UAFR) | 99,533              | 452,235             |
| Income tax payable (Note 18)                | -                   | 4,065,370           |
| Other current liabilities                   | 6,179,478           | 4,898,217           |
|   | <b>₱431,363,675</b> | <b>₱362,005,055</b> |



**13. Related Party Transactions**

The following is a summary of related party accounts and transactions as at and for the years ended December 31, 2021 and 2020.

|                                  | Receivables<br>from<br>Related<br>Parties | Payables<br>to Related<br>Parties | Terms               | Conditions |
|----------------------------------|---|-----------------------------------|---------------------|------------|
| Evercore Business Solutions Inc. |   |                                   |                     |            |
| 2021                             | P-  | P-                                | Due and demandable; | Unsecured; |
| 2020                             | P-  | P-                                | Due and demandable; | Unsecured; |
| One Pacific Prime Solutions Inc. |   |                                   |                     |            |
| 2021                             | -   | -                                 | Due and demandable; | Unsecured; |
| 2020                             | -   | -                                 | Due and demandable; | Unsecured; |
| Officers and employees           |   |                                   |                     |            |
| 2021                             | 796,015                                   | -                                 | Upon liquidation;   | Unsecured; |
| 2020                             | 398,727                                   | -                                 | Upon liquidation;   | Unsecured; |
| Related parties                  |   |                                   |                     |            |
| 2021                             | -   | 2,037,250                         | Due and demandable; | Unsecured; |
| 2020                             | 1,026,043                                 | -                                 | Due and demandable; | Unsecured; |
| 2021                             | P796,015                                  | P2,037,250                        |                     |            |
| 2020                             | P1,424,770                                | P-                                |                     |            |

Due from related parties refer to noninterest-bearing advances to and reimbursement of expenses for entities under common ownership which are expected to be settled in cash.

Advances from stockholders, consist of amounts settled by key management personnel on behalf of the Company and/or reimbursement of expenses.

**14. Retirement Benefits Liability**

The Company has an unfunded, noncontributory, defined benefit retirement plan covering all of its permanent employees. Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method.

The movement in the present value of defined benefit obligation for the year ended December 31, 2021 and 2020 are as follows:

|  | 2021        | 2020        |
|--|-------------|-------------|
| Balance at beginning of year                           | P33,188,369 | P23,160,318 |
| <b>Included in profit or loss</b>                      |             |             |
| Interest cost  | 1,310,941   | 1,208,969   |
| Current service cost                                   | 5,517,494   | 4,586,523   |
|  | 6,828,435   | 5,795,492   |
| <b>Included in other comprehensive income</b>          |             |             |
| Benefits paid directly from book reserve - settlements | -           | (797,510)   |
| Settlement - loss (gain)                               | -           | (3,641,434) |
| (Forward)  |             |             |

|  |                    |                    |
|--|--------------------|--------------------|
| Actuarial loss (gain) on retirement liability: |                    |                    |
| - due to changes in financial assumption       | (29,881,264)       | 8,658,414          |
| - due to experience                            | 6,064,387          | 13,089             |
| - due to changes in demographic assumption     | 46,247             | -                  |
|  | (23,770,630)       | 4,232,559          |
| Balance at end of year                         | <b>₱16,246,174</b> | <b>₱33,188,369</b> |

Retirement expense included in profit or loss is presented as part of Personnel costs under "Selling, General and Administrative Expenses" account in the statement of comprehensive income (see Note 17).

The principal actuarial assumptions used to determine retirement benefits are as follows:

|               | 2021  | 2020  |
|---------------|-------|-------|
| Discount rate | 5.08% | 3.95% |
| Salary rate   | 5.00% | 9.00% |

Assumptions for mortality and disability rate are based on published statistics and mortality and disability tables.

As at December 31, 2021 and 2020, the weighted average duration of defined benefit obligation is 19.5 and 24.4 years, respectively.

As at December 31, 2021, the reasonably possible changes to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts below.

|               | Defined Benefit<br>Obligation |
|---------------|-------------------------------|
| Discount rate | 21.8% Increase ₱3,534,298     |
|               | 17.3% Decrease (2,803,896)    |
| Salary rate   | 21.5% Increase 3,499,916      |
|               | 17.4% Decrease (2,829,790)    |

## 15. Stockholders' Equity

### (a) Share Capital

The details of the Company's share capital (with a par value of ₱1,000 a share) follow:

|  | 2021               | 2020               |
|--|--------------------|--------------------|
| Share capital:                         |                    |                    |
| Authorized - 100,000 shares            |                    |                    |
| Issued and outstanding - 50,000 shares | <b>₱50,000,000</b> | <b>₱50,000,000</b> |
| Capital paid in excess of par          | <b>25,001,000</b>  | <b>25,001,000</b>  |
|  | <b>₱75,001,000</b> | <b>₱75,001,000</b> |

### Increase in Authorized Share Capital

On January 12, 2016, the SEC approved the increase in the Company's authorized share capital from ₱15,000,000 to ₱100,000,000 divided into 100,000 common shares with each class having a par value of ₱1,000 per share. Of the net increase in the authorized share capital of ₱85,000,000, the amount of ₱35,000,000 has been actually subscribed, and of said subscription, the amount of ₱5,000,000 has been actually paid in cash, and ₱30,000,000 via conversion of liabilities into equity and stock dividends.



**(b) Dividends**

On January 12, 2016, stock dividends amounting to ₱10,000,000 or ₱1,000 per shares were declared by the BOD of the Company to its stockholders of records as at December 31, 2015.

**(c) Appropriation**

At the special meeting of the Board of Directors of the Company held on February 9, 2022, during which a quorum was present and acting, approved the appropriation of retained earnings as of December 31, 2021 with a total amount of ₱25,000,000 for tax contingency.

**16. Healthcare Benefits and Claims**

Healthcare Benefits and Claims consist of:

|  | 2021         | 2020         |
|--|--------------|--------------|
| Medical service and hospitalization            | ₱369,394,961 | ₱408,094,204 |
| Professional fees                              | 81,495,789   | 88,291,467   |
| Commission - Intermediaries                    | 46,534,070   | 58,573,065   |
| Insurance                                      | 9,357,367    | 7,461,319    |
| Medical and office supplies                    | 6,670,065    | 3,165,781    |
|  | ₱513,452,252 | ₱565,585,836 |
| Increase (decrease) in IBNR reserves (Note 12) | (53,308,547) | 25,081,894   |
|  | ₱460,143,705 | ₱590,667,730 |

**17. Selling, General and Administrative Expenses**

Selling, general and administrative expenses consist of:

|   | 2021         | 2020         |
|---|--------------|--------------|
| Personnel costs                         | ₱78,500,213  | ₱81,856,374  |
| Commission - Sales Personnel            | 23,244,148   | -            |
| Professional and director fees          | 19,653,402   | 17,052,004   |
| Depreciation and amortization (Note 9)  | 7,207,936    | 1,518,193    |
| Rent expense (Note 19)                  | 6,625,038    | 5,314,386    |
| Entertainment, amusement and recreation | 6,083,855    | 1,852,509    |
| Taxes and licenses (Note 22)            | 5,808,787    | 5,617,334    |
| Communication, light and water          | 5,290,641    | 4,695,796    |
| Repairs and maintenance                 | 3,642,252    | 2,406,367    |
| Office supplies                         | 2,829,426    | 2,687,489    |
| Parking and other dues                  | 1,935,608    | 799,265      |
| Delivery charge                         | 893,514      | 1,858,774    |
| Insurance                               | 689,640      | 686,217      |
| Transportation and travel               | 621,940      | 1,663,488    |
| Donation                                | 195,846      | 139,394      |
| Others                                  | 903,687      | 2,448,250    |
|   | ₱164,125,933 | ₱130,595,840 |

Others include expenses incurred for events, solicitation and miscellaneous expenses.

**18. Income Taxes**

A reconciliation of the income tax expenses computed at statutory income tax rate to the income tax expenses shown in the statement of comprehensive income is as follows:

|  | 2021                | 2020        |
|--|---------------------|-------------|
| Financial income before income tax             | <b>₱88,371,848</b>  | ₱56,610,450 |
| Reconciling items:                             |                     |             |
| Increase (decrease) in IBNR reserves (Note 12) | <b>(53,308,547)</b> | 25,081,894  |
| Interest income subjected to final tax         | <b>(1,395,518)</b>  | (287,727)   |
| Retirement benefits                            | <b>6,828,435</b>    | 5,795,492   |
| Penalties                                      | <b>6,420,205</b>    | 62,585      |
| Taxable income                                 | <b>46,916,423</b>   | 87,262,694  |
| Regular corporate income tax (RCIT)            | <b>11,729,106</b>   | 26,178,808  |
| Minimum corporate income tax (MCIT)            | <b>2,575,358</b>    | 4,253,801   |

|                                  | 2021                | 2020         |
|----------------------------------|---------------------|--------------|
| Provision for income tax         | <b>₱11,729,106</b>  | ₱26,178,808  |
| Excess from previous year        | -                   | (733,640)    |
| Prior period adjustment          | -                   | (6,886,211)  |
| Quarterly income tax payment     | -                   | (2,675,802)  |
| Creditable withholding tax       | <b>(12,539,484)</b> | (11,817,785) |
| Income tax payable (prepaid tax) | <b>(₱810,378)</b>   | ₱4,065,370   |

**19. Lease Agreements**

The lease arrangements are non-cancellable and provide for among others, payment of rental deposits which will be refunded upon termination of the leases. Rental deposits included in "Other current assets" account amounted to zero and ₱90,750 as at December 31, 2021 and 2020, respectively.

Rent expense for the years ended December 31, 2021 and 2020 amounted to ₱6,625,038 and ₱5,314,386, respectively.

**20. Fair Value of Financial Assets and Financial Liabilities**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Cash in Banks*

The carrying amount of cash approximates their fair values as management believes that the effect of discounting cash flows from these instruments is not significant.

*Receivables/Refundable Cash Bond/Rental Deposits/Accounts Payable and Other Current Liabilities*

The carrying amount of receivables and accounts payable and other current liabilities approximate their fair values due to the relatively short-term nature of these financial instruments. The carrying amount of refundable cash bond, security deposits and rental deposits approximate its fair value because the effective interest rate used for discounting approximates the current market rate of interest for similar transactions.



*AFS Investments*

The fair value of the AFS Investments is based on the quoted market price of the investment in equity as at December 31, 2021. The fair value is under Level 1 of the fair value hierarchy.

**21. Financial Risk and Capital Management Objectives and Policies**

The Company is exposed to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Company's aim is to achieve an appropriate balance between risks and returns to minimize potential adverse effects on the Company's financial performance.

*Financial Risk Management*

The Company has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Company's exposure to each of the foregoing risks, the Company's objectives, policies and processes for measuring and managing risks, and the Company's management of capital. The main purpose of the Company's dealings in financial instruments is to fund its operations and capital expenditures. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The BOD of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The BOD is responsible for developing and monitoring the Company's risk management policies in identifying all issues affecting the operations of the Company.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. All risks faced by the Company are incorporated in the annual operating budget. Mitigating strategies and procedures are also devised to address the risks that inevitably occur so as not to affect the Company's operations and forecasted results. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD performs oversight role over financial management functions, specifically in the areas of managing credit, liquidity, market and other risks of the Company. The BOD undertakes reviews of risk management controls and procedures and ensures the integrity of internal control activities which affect the financial reporting system of the Company.

*Credit Risk*

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



The Company manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Company's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk. Further, the Company has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Financial information on the Company's maximum exposure to credit risk as at December 31, without considering the effects of collaterals and other risk mitigation techniques, is presented below:

|  | 2021                | 2020         |
|--|---------------------|--------------|
| Loans and receivables                      |                     |              |
| Cash in banks and on hand (Note 5)         | <b>₱157,004,096</b> | ₱232,282,178 |
| Trade and other receivables - net (Note 6) | <b>51,696,308</b>   | 63,456,948   |
| Refundable cash bond (Note 11)             | <b>4,243,687</b>    | 4,243,687    |
| Security deposit (Note 11)                 | <b>438,469</b>      | 358,469      |
| Rental deposits (Note 8)                   | -                   | 90,750       |
|  | <b>213,382,560</b>  | 300,432,032  |
| AFS Investments (Note 7)                   | <b>327,597,785</b>  | 91,977,696   |
|  | <b>₱540,980,345</b> | ₱392,409,728 |

The Company has assessed the credit quality of the following financial assets:

*Cash in Banks / AFS Investments*

The management evaluates the financial condition of the banking industry and deposits cash with reputable banks only, with a low probability of insolvency.

*Receivables*

Majority of the Company's credit risk is attributed to receivables from customers and other counter parties. The aging of the Company's receivables, including the default risk of the industry and regions in which customers or counterparties operate, influences credit risk.

The receivables of the Company consist of individually significant accounts and have been subjected to the specific impairment approach. The Company believes that the unimpaired amounts that are past due are still collectible based on historical payment behavior and extensive analyses of the underlying customer ratings. There are no significant changes in their credit quality, and no impairment loss is recognized.

*Refundable Cash Bonds*

The Company's exposure to credit risk is minimal since the management evaluates and transacts with reputable hospital and other medical institutions only.

*Rental Deposits/Security Deposits*

The management prefers well known business establishments to ensure recovery of the deposits upon termination of the lease agreements.

The credit quality of the Company's neither past due nor impaired financial assets based on their historical experience with the corresponding third parties has been defined as follows:

- Grade A: Financial assets which are consistently collected before maturity.
- Grade B: Financial assets which are collected on their due dates even without an effort from the Company to follow them up.
- Grade C: Financial assets which are collected on their due dates provided that the Company made a persistent effort to collect.



As at December 31, 2021 and 2020, the Company's cash in banks and AFS investments are classified under Grade A while receivables, refundable cash bonds, security deposits and rental deposits are classified under Grade B.

The Company has established a credit policy under which each new customer/counterparty within the same industry is analyzed individually for creditworthiness before standard credit terms and conditions are granted. The Company's review includes the requirements of updated credit application documents, credit verifications through the use of no negative record requests and list of blacklisted accounts, and analyses of financial performance to ensure credit capacity. The status of each account is first checked before credit is approved. The aging of receivables as at December 31 is as follows:

|                     | 2021         |            | 2020         |            |
|---------------------|--------------|------------|--------------|------------|
|                     | Gross Amount | Impairment | Gross Amount | Impairment |
| Current             | P29,983,859  | P-         | P36,805,030  | P-         |
| Past due 1-30 days  | 4,135,705    | -          | 5,076,556    | -          |
| Past due 31-60 days | 3,618,742    | -          | 4,441,986    | -          |
| More than 60 days   | 13,958,002   | -          | 17,133,376   | -          |
|                     | P51,696,308  | P-         | P63,456,948  | P-         |

As of reporting date, there were no significant concentrations of credit risk.

#### Liquidity Risk

Liquidity risk pertains to the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company manages liquidity risk by forecasting projected cash flows and maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal requirements.

The Company's contractual cash flows for its financial liabilities are expected to be settled within the next twelve months.

The following are the contractual maturities of financial liabilities of the Company:

|   | As of December 31, 2021 |                       |                  |
|---|-------------------------|-----------------------|------------------|
|   | Carrying Amount         | Contractual Cash Flow | 6 Months or Less |
| Other Financial Liabilities*                |                         |                       |                  |
| Unearned membership fee                     | P191,419,337            | P191,419,337          | P191,419,337     |
| Managed care liability                      | 135,257,868             | 135,257,868           | 135,257,868      |
| Claim liabilities (IBNR)                    | 61,124,683              | 61,124,683            | 61,124,683       |
| In course of settlement liabilities (ICOS)  | 10,135,954              | 10,135,954            | 10,135,954       |
| ASO fund liabilities                        | 7,100,000               | 7,100,000             | 7,100,000        |
| Due and unpaid liabilities (D & U)          | 6,133,234               | 6,133,234             | 6,133,234        |
| Sales tax payable                           | 5,534,812               | 5,534,812             | 5,534,812        |
| Claims handling liabilities                 | 3,869,693               | 3,869,693             | 3,869,693        |
| Deferred tax liability                      | 3,291,298               | 3,291,298             | 3,291,298        |
| Administrative Service Only (ASO) Reserves  | 1,217,785               | 1,217,785             | 1,217,785        |
| Unearned Administrative Fee Reserves (UAFR) | 99,533                  | 99,533                | 99,533           |
| Other current liabilities                   | 1,055,351               | 1,055,351             | 1,055,351        |
|   | P426,239,548            | P426,239,548          | P426,239,548     |

\*Excluding statutory payables amounting to P5,124,127.



|   | As of December 31, 2020 |                       |                  |
|---|-------------------------|-----------------------|------------------|
|   | Carrying Amount         | Contractual Cash Flow | 6 Months or Less |
| Other Financial Liabilities*                |                         |                       |                  |
| Unearned membership fee                     | P206,831,085            | P206,831,085          | P206,831,085     |
| Claim liabilities (IBNR)                    | 111,135,501             | 111,135,501           | 111,135,501      |
| Due and unpaid liabilities (D & U)          | 14,150,390              | 14,150,390            | 14,150,390       |
| Administrative Service Only (ASO) Reserves  | 6,748,915               | 6,748,915             | 6,748,915        |
| Claims handling liabilities                 | 5,556,775               | 8,898,778             | 8,898,778        |
| Sales tax payable                           | 4,437,122               | 4,437,122             | 4,437,122        |
| Income tax payable (Note 18)                | 4,065,370               | 4,065,370             | 4,065,370        |
| In course of settlement liabilities (ICOS)  | 3,729,445               | 3,729,445             | 3,729,445        |
| Unearned Administrative Fee Reserves (UAFR) | 452,235                 | 452,235               | 452,235          |
| Other current liabilities                   | 2,993,478               | 2,993,475             | 2,993,475        |
|   | P360,100,316            | P360,100,316          | P360,100,316     |

\*Excluding statutory payables amounting to P1,904,739.

### Market Risk

Market risk is the risk of loss of future earnings or future cash flows arising from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in price and other market changes.

### Price Risk

The Company's price risk exposure at reporting date relates to financial assets whose values will fluctuate as a result of changes in market prices, principally, AFS investments. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instrument or their issues or factors affecting all instruments traded in the market.

The Company manages its risk arising from changes in market price by monitoring the change in the market price of investments.

### Capital Management

The Company's objectives when managing capital are to increase the value of shareholders' investment and maintain high growth by applying free cash flows to selective investments. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The BOD monitors capital on the basis of debt-to-equity ratio which is calculated as total debt divided by total equity. Total capital comprises all components of stockholders' equity which is composed of share capital, retirement reserves, fair value reserves and retained earnings (deficit). Total stockholders' equity amounted to P148,225,650 and P45,457,584 as at December 31, 2021 and 2020, respectively.

As at December 31, 2021, there is no change in the Company's capital management policy.

The Company's existing paid-up capital amounting to P75,001,000 is in compliance with Financial Capacity requirement of the IC's Circular Letter No. 2016-41 dated October 27, 2016.



**22. Supplementary Information Required by the Bureau of Internal Revenue (BIR)**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable period. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the separate financial statements which were prepared in accordance with PFRS. The following is the tax information required by the Revenue Regulations No. 15-2010 for the taxable period ended December 31, 2021 and 2020:

**a. Local and national taxes and licenses**

|                | 2021              | 2020       |
|----------------|-------------------|------------|
| Business taxes | <b>₱5,801,064</b> | ₱5,611,022 |
| Others         | <b>7,723</b>      | 6,312      |
|                | <b>₱5,808,787</b> | ₱5,617,334 |

**b. Value-added tax (VAT)****Output VAT**

The revenue/receipts and Output VAT declared in the Company's VAT returns are as follows:

|                               | 2021                | 2020         |
|-------------------------------|---------------------|--------------|
| Gross receipts subject to VAT | <b>₱422,233,134</b> | ₱319,021,241 |
| Zero rated gross receipts     | <b>339,668,460</b>  | 355,094,607  |
| Exempt gross receipts         | <b>21,367,235</b>   | 59,152,174   |
| Total gross receipts          | <b>783,268,829</b>  | 733,268,022  |
| Output VAT                    | <b>₱50,667,976</b>  | ₱38,282,549  |

**Input VAT**

|  | 2021               | 2020        |
|--|--------------------|-------------|
| Input VAT on domestic purchase for:          |                    |             |
| Goods and services                           | <b>₱6,134,572</b>  | ₱4,582,524  |
| Input vat applied                            | <b>(6,037,573)</b> | (4,301,515) |
| Input vat allocated to exempt gross receipts | <b>(96,999)</b>    | (281,009)   |
|  | <b>₱-</b>          | ₱-          |

**VAT payment**

|             | 2021               | 2020        |
|-------------|--------------------|-------------|
| Output VAT  | <b>₱50,667,976</b> | ₱38,282,549 |
| Input VAT   | <b>(6,037,573)</b> | (4,301,515) |
| VAT payment | <b>₱44,630,403</b> | ₱33,981,034 |

**c. Withholding Taxes**

|                                | 2021               | 2020        |
|--------------------------------|--------------------|-------------|
| Withholding tax - Expanded     | <b>₱19,305,376</b> | ₱15,368,259 |
| Withholding tax - Compensation | <b>5,708,100</b>   | 5,411,998   |
|                                | <b>₱25,013,476</b> | ₱20,780,257 |

The Company has no pending tax court cases nor received any tax assessment notices from the BIR as at December 31, 2021

# FRANCIA L. EUGENIO

Certified Public Accountant

## INDEPENDENT AUDITOR'S REPORT

840 Escueta St., San Antonio,  
Biñan, Laguna, Philippines

Email:

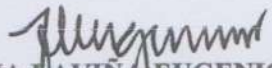
[franceu@yahoo.com](mailto:franceu@yahoo.com)

Contact No. 0917-8621-809

The Board of Directors and Stockholders  
**Eastwest Healthcare, Inc.**  
(Formerly Eastwest Business Solutions, Inc.)  
6th Floor, Makati Executive Center,  
114 Leviste St., Salcedo Village,  
Makati City

I have audited the financial statements of **Eastwest Healthcare, Inc.** (Formerly Eastwest Business Solutions, Inc.) as at and for the years ended December 31, 2021 and 2020, on which I have rendered the attached report dated April 05, 2022.

In compliance with Securities Regulation Code Rule 68, I am stating that the above Company has a total number of eight (8) stockholders owning one hundred (100) or more shares each.



**FRANCIA L. EUGENIO**

CPA Certificate No. 0076270

Tax Identification No. 109-342-403-000

BOA Accreditation No. 1644

Issued September 24, 2020 valid until November 05, 2023

PTR No. 1679928, January 06, 2022, City of Biñan, Laguna

BIR Accreditation No. AN 09-003333-001-2021

Issued December 21, 2021 valid until December 20, 2024

IC Accreditation No. IA-2019-002-R

Issued April 15, 2019 valid until April 14, 2022

April 05, 2022



# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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**COMPANY NAME**

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## PRINCIPAL OFFICE ( No./Street/Barangay/City/Town/Province)

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Form Type

Department requiring the report

Secondary License Type, If Applicable

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## COMPANY INFORMATION

**Company's Email Address**

[itt@eastwesthealthcare.net](mailto:itt@eastwesthealthcare.net)

**Company's Telephone Number/s**

(02) 225-1175

Mobile Number

0917-5529355

No. of Stockholders

10

Annual Meeting (Month/Day)

July 27

Fiscal Year (Month/Day)

12/31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Irish Tom T. Tolentino

Email Address

[itt@eastwesthealthcare.net](mailto:itt@eastwesthealthcare.net)

Telephone Number/s

(02) 8802-5431

Mobile Number

0917-5529355

## CONTACT PERSON'S ADDRESS

**Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and /or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

**EASTWEST HEALTHCARE, INC.**  
**(Formerly Eastwest Business Solutions, Inc.)**

FINANCIAL STATEMENTS  
DECEMBER 31, 2021 AND 2020

AND

INDEPENDENT AUDITOR'S REPORT

**FRANCIA L. EUGENIO**  
Certified Public Accountant





## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

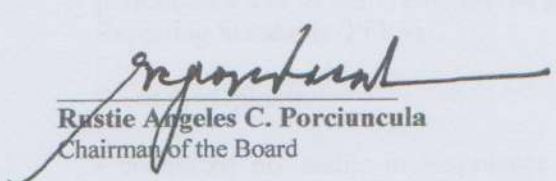
The management of **Eastwest Healthcare, Inc.** (Formerly Eastwest Business Solutions, Inc.) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

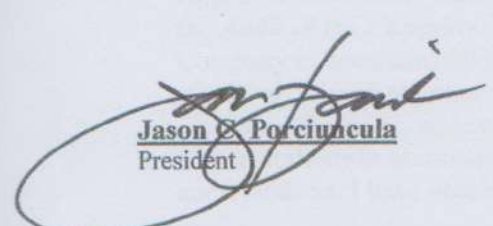
The Board of Directors is responsible for overseeing the Company's financial reporting process.

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

Francia L. Eugenio, the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



**Rustie Angeles C. Porciuncula**  
Chairman of the Board



**Jason C. Porciuncula**  
President



**Atty. Irish Tom T. Tolentino**  
Chief Financial Officer

Signed this 5<sup>th</sup> day of April 2022