

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **Paxys, Inc. and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, including the schedules attached therein, 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative to do so.

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

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

Reyes Tacandong & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Group 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.



Tarcisio M. Medalla
Chairman of the Board and President



Pablito O. Lim
Group Chief Financial Officer

Signed this 24th day of March 2023.

SUBSCRIBED AND SWORN TO before me
this APR 04 2023 in MAKATI CITY.

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Book No. 3
Series of 20 23

ATTY. JOEL FERRER FLORIN
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2023 (2023-2024)
APPOINTMENT NO. M-115
ROLL NO. 77376 / MCLE (EXEMPT)
PTR NO. 9563564 / JAN. 03, 2023/MAKATI CITY
IBP NO. 261994 / JAN. 03, 2023/PASIG CITY
1107 D. BATAAN ST., GUNDA LUPE NUEVO, MAKATI CITY

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Paxys, Inc.
15th Floor, 6750 Ayala Office Tower
Ayala Avenue, Makati City

Opinion

We have audited the accompanying consolidated financial statements of Paxys, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021 and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2022, 2021 and 2020 and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2022, 2021 and 2020 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for Financial Assets

The Group has significant amount of financial assets, which mainly consist of cash equivalents and investment securities. This is significant to our audit because the aggregate balance of financial assets amounting to ₱3,964.8 million as at December 31, 2022, which comprise 97% of the total assets, is substantial in relation to the consolidated financial statements as a whole. Moreover, the classification of financial instruments involves judgment in determining the business model to be used in managing its financial instruments to achieve the Group's business objectives and the determination of impairment losses on financial assets are determined based on estimates of expected credit losses.

We have assessed the propriety of recognition, classification and measurement, as well as management's assessment of the impairment of financial assets. Our audit procedures included, among others, (a) understanding of the Group's financial asset management and recording process; (b) verifying the existence of financial assets by obtaining external confirmations from custodians and examining the underlying documents; (c) evaluating the propriety of the classification of financial instruments based on the duly approved business model; (d) testing the reasonableness of recognized interest income and the changes in fair values of financial assets measured at fair value through profit or loss and other comprehensive income; and (e) evaluating management's assessment of impairment losses on financial assets based on expected credit losses.

Necessary disclosures are included in Note 5, *Cash and Cash Equivalents*, Note 6, *Investment Securities*, and Note 23, *Financial Instruments*.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified in the foregoing when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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



Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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, these could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore considered key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Michelle R. Mendoza-Cruz.

REYES TACANDONG & Co.


MICHELLE R. MENDOZA-CRUZ
Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until April 13, 2024

SEC Accreditation No. 97380-SEC Group A

Issued April 8, 2021

Valid for Financial Periods 2020 to 2024

BIR Accreditation No. 08-005144-012-2023

Valid until January 24, 2026

PTR No. 9564565

Issued January 3, 2023, Makati City

March 24, 2023

Makati City, Metro Manila

PAXYS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Amounts in Thousands

| | | December 31 | |
|--|------|-------------------|-------------------|
| | Note | 2022 | 2021 |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 5 | ₱2,847,269 | ₱2,142,257 |
| Investment securities | 6 | 1,071,765 | 1,582,570 |
| Trade and other receivables | 7 | 62,024 | 37,681 |
| Other current assets | 8 | 31,109 | 28,332 |
| Total Current Assets | | 4,012,167 | 3,790,840 |
| Noncurrent Assets | | | |
| Right-of-use assets | 22 | 43,944 | 48,790 |
| Property and equipment | 10 | 1,270 | 2,016 |
| Other noncurrent assets | 11 | 10,325 | 8,812 |
| Total Noncurrent Assets | | 55,539 | 59,618 |
| | | ₱4,067,706 | ₱3,850,458 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Trade and other payables | 12 | ₱27,960 | ₱26,800 |
| Current portion of lease liabilities | 22 | 21,293 | 13,902 |
| Income tax payable | | 120 | 2 |
| Total Current Liabilities | | 49,373 | 40,704 |
| Noncurrent Liabilities | | | |
| Lease liabilities - net of current portion | 22 | 23,670 | 36,114 |
| Retirement liability | 13 | 6,337 | 9,335 |
| Other noncurrent liabilities | 12 | 3,046 | 1,802 |
| Total Noncurrent Liabilities | | 33,053 | 47,251 |
| Total Liabilities | | 82,426 | 87,955 |
| Equity | | | |
| Capital stock | 14 | 1,148,535 | 1,148,535 |
| Additional paid-in capital | | 451,364 | 451,364 |
| Retained earnings | | 2,917,879 | 2,881,202 |
| Parent shares held by a subsidiary | | (1,149,886) | (1,149,886) |
| Other equity reserves | | 617,388 | 431,288 |
| Total Equity | | 3,985,280 | 3,762,503 |
| | | ₱4,067,706 | ₱3,850,458 |

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Amounts in Thousands, except Basic/Diluted Earnings (Loss) per Share

| | Note | Years Ended December 31 | | |
|---|------|-------------------------|-----------|-----------|
| | | 2022 | 2021 | 2020 |
| SERVICE INCOME | | ₱29,044 | ₱44,680 | ₱54,648 |
| COST OF SERVICES | 16 | (22,917) | (32,036) | (40,756) |
| GROSS PROFIT | | 6,127 | 12,644 | 13,892 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 17 | (76,934) | (76,486) | (89,504) |
| INTEREST INCOME | 19 | 88,629 | 35,588 | 51,343 |
| NET FOREIGN EXCHANGE GAIN (LOSS) | | 9,293 | 5,831 | (4,203) |
| INTEREST EXPENSE | 22 | (1,917) | (1,530) | (1,267) |
| OTHER INCOME | 19 | 11,824 | 12,955 | 8,215 |
| INCOME (LOSS) BEFORE INCOME TAX | | 37,022 | (10,998) | (21,524) |
| CURRENT INCOME TAX EXPENSE | 20 | 5,948 | 2,415 | 4,401 |
| NET INCOME (LOSS) | | ₱31,074 | (₱13,413) | (₱25,925) |
| BASIC/DILUTED EARNINGS (LOSS) PER SHARE | 21 | ₱0.039 | (₱0.017) | (₱0.032) |

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Amounts in Thousands

| | Note | Years Ended December 31 | | |
|---|------|-------------------------|------------------|-------------------|
| | | 2022 | 2021 | 2020 |
| NET INCOME (LOSS) | | ₱31,074 | (₱13,413) | (₱25,925) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| <i>Items to be Reclassified to Profit or Loss</i> | | | | |
| Translation adjustments | | 267,371 | 165,669 | (144,427) |
| Unrealized fair value gain (loss) on investment securities | 6 | (76,519) | (14,628) | 10,160 |
| Realized fair value gain on redemption of investment securities measured at fair value through other comprehensive income | 6 | – | (8,243) | (22) |
| <i>Item not to be Reclassified to Profit or Loss</i> | | | | |
| Remeasurement gain on retirement liability | 13 | 851 | 3,099 | 3,254 |
| | | 191,703 | 145,897 | (131,035) |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | ₱222,777 | ₱132,484 | (₱156,960) |

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Amounts in Thousands

| | Note | Years Ended December 31 | | |
|--|------|-------------------------|-------------------|-------------------|
| | | 2022 | 2021 | 2020 |
| CAPITAL STOCK | 14 | ₱1,148,535 | ₱1,148,535 | ₱1,148,535 |
| ADDITIONAL PAID-IN CAPITAL | 14 | 451,364 | 451,364 | 451,364 |
| PARENT SHARES HELD BY A SUBSIDIARY | 14 | (1,149,886) | (1,149,886) | (1,149,886) |
| RETAINED EARNINGS | 14 | | | |
| Balance at beginning of year | | 2,881,202 | 2,894,615 | 2,920,540 |
| Net income (loss) | | 31,074 | (13,413) | (25,925) |
| Derecognition of remeasurement gains on retirement liability | | 5,603 | - | - |
| Balance at end of year | | 2,917,879 | 2,881,202 | 2,894,615 |
| OTHER EQUITY RESERVES | | | | |
| Cumulative Translation Adjustment | | | | |
| Balance at beginning of year | | 438,368 | 272,699 | 417,126 |
| Translation gain (loss) | | 267,371 | 165,669 | (144,427) |
| Balance at end of year | | 705,739 | 438,368 | 272,699 |
| Cumulative Fair Value Changes on Investment Securities | | | | |
| | 6 | | | |
| Balance at beginning of year | | (11,537) | 11,334 | 1,196 |
| Net unrealized gain (loss) | | (76,519) | (14,628) | 10,160 |
| Realized fair value gain on redemption of investment securities reclassified to profit or loss | | - | (8,243) | (22) |
| Balance at end of year | | (88,056) | (11,537) | 11,334 |
| Cumulative Remeasurement Gains (Losses) on Retirement Liability | | | | |
| | 13 | | | |
| Balance at beginning of year | | 4,457 | 1,358 | (1,896) |
| Remeasurement gain | | 851 | 3,099 | 3,254 |
| Derecognition of remeasurement gains reclassified to retained earnings | | (5,603) | - | - |
| Balance at end of year | | (295) | 4,457 | 1,358 |
| | | 617,388 | 431,288 | 285,391 |
| | | ₱3,985,280 | ₱3,762,503 | ₱3,630,019 |

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in Thousands

| | | Years Ended December 31 | | |
|--|------|-------------------------|-----------|-----------|
| | Note | 2022 | 2021 | 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income (loss) before income tax | | ₱37,022 | (₱10,998) | (₱21,524) |
| Adjustments for: | | | | |
| Interest income | 19 | (88,629) | (35,588) | (51,343) |
| Depreciation and amortization | 19 | 18,456 | 17,095 | 18,832 |
| Net unrealized foreign exchange loss (gain) | | (7,420) | (5,607) | 4,238 |
| Provision for impairment losses on: | | | | |
| Receivables | 7 | 4,051 | – | – |
| Input value-added tax | 17 | – | 7 | 9 |
| Interest expense on lease liabilities | 22 | 1,917 | 1,530 | 1,267 |
| Retirement benefits – net | 13 | 541 | 787 | 1,357 |
| Loss (gain) on redemption of investment securities | 19 | 103 | (8,377) | (2,719) |
| Gain on disposal of property and equipment | | (62) | – | – |
| Unrealized fair value gain on investment securities at fair value through profit or loss | 19 | – | (98) | (359) |
| Reversal of long-outstanding trade and other payables | 19 | – | – | (788) |
| Operating loss before working capital changes | | (34,021) | (41,249) | (51,030) |
| Decrease (increase) in: | | | | |
| Investment securities measured at fair value through profit or loss | 6 | 45,390 | 113,024 | 88,626 |
| Trade and other receivables | | (10,375) | (17,177) | (1,039) |
| Other current assets | | (2,777) | (2,965) | (2,478) |
| Other noncurrent assets | | (1,526) | – | – |
| Increase (decrease) in: | | | | |
| Trade and other payables | | 1,345 | (447) | (3,580) |
| Other noncurrent liabilities | | 1,244 | – | – |
| Net cash generated from (used for) operations | | (720) | 51,186 | 30,499 |
| Interest received | | 91,883 | 55,080 | 70,711 |
| Retirement benefits paid | | (2,688) | – | – |
| Income taxes paid | | (5,830) | (2,426) | (4,410) |
| Net cash provided by operating activities | | 82,645 | 103,840 | 96,800 |

(Forward)

| | | Years Ended December 31 | | |
|--|------|-------------------------|-------------|------------|
| | Note | 2022 | 2021 | 2020 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Proceeds from: | | | | |
| Redemption of investment securities measured at amortized cost and fair value through other comprehensive income | 6 | P 1,677,133 | P479,089 | P149,279 |
| Disposal of property and equipment | | 80 | - | - |
| Additions to: | | | | |
| Investment securities measured at amortized cost and at fair value through other comprehensive income | 6 | (1,172,013) | (1,099,705) | (847,165) |
| Property and equipment | 10 | (495) | (758) | (755) |
| Intangible assets | 11 | (18) | (15) | (114) |
| Increase (decrease) in due from related parties | 7 | 6,931 | (800) | (800) |
| Net cash provided by (used in) investing activities | | 511,618 | (622,189) | (699,555) |
| CASH FLOW FROM A FINANCING ACTIVITY | | | | |
| Payments of lease liabilities | 22 | (19,195) | (14,858) | (15,909) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 575,068 | (533,207) | (618,664) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | 129,944 | 125,997 | (119,667) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 2,142,257 | 2,549,467 | 3,287,798 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 5 | P2,847,269 | P2,142,257 | P2,549,467 |

See accompanying Notes to Consolidated Financial Statements.

PAXYS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2022 AND 2021 AND FOR EACH OF THE THREE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020 *Amounts in Thousands, Except as Indicated*

1. Corporate Information

Paxys, Inc. (Paxys or the Parent Company) is an investment holding company incorporated in the Philippines and listed (stock symbol: PAX) in the Philippine Stock Exchange (PSE). The Parent Company was formerly known as Fil-Hispano Holdings Corporation and registered with the Philippine Securities and Exchange Commission (SEC) on February 14, 1952. On June 18, 2001, the SEC approved the extension of the corporate existence of the Parent Company for 50 years until February 2052. However, in accordance with the Revised Corporation Code of the Philippines, effective February 23, 2019, the Parent Company shall have a perpetual existence.

On March 22, 1971, the shares of the Parent Company at ₱1 par value a share were listed with the PSE. As at December 31, 2022 and 2021, 1,148,534,866 common shares of the Parent Company are listed and traded in the PSE at the price of ₱2 and ₱2.10 per share, respectively.

As at December 31, 2022 and 2021, the major shareholders of the Parent Company are All Asia Customer Services Holdings Ltd (AACSHL), a company incorporated in Hong Kong, and Paxys N.V., a wholly owned subsidiary of the Parent Company, with 54.93% and 30.09% equity interest, respectively.

Scopeworks Asia, Inc. (SWA), the operating subsidiary, provides outsourcing services such as data conversion, managed services, leasing and subleasing, and other outsourcing services.

The Parent Company and its subsidiaries are collectively referred herein as the Group.

The registered office address of the Parent Company is at 15th Floor, 6750 Ayala Office Tower, Ayala Avenue, Makati City.

Approval of the Consolidated Financial Statements

The accompanying consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, 2021 and 2020 were authorized for issue by the Board of Directors (BOD) on March 24, 2023, upon endorsement by the Group's Audit, Risk Management, and Related Party Transactions Committee on the same date.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial and Sustainability Reporting Standards Council (formerly Financial Reporting Standards Council) and adopted by the SEC, including SEC pronouncements.

Measurement Bases

The consolidated financial statements are presented in Philippine Peso, which is the functional currency of the Parent Company. All amounts are rounded to the nearest thousands, unless otherwise stated.

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for investment securities measured at fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI).

Historical cost is generally based on the fair value of the consideration given in exchange for an asset or the fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

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 Group 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 and/or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in the active market for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

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

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

For the purpose of fair value disclosures, the Group 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 discussed in the foregoing.

Information about the assumptions made in measuring fair value is included in the following notes to consolidated financial statements:

Note 3, *Significant Judgments, Accounting Estimates and Assumptions*

Note 23, *Financial Instruments*

Adoption of Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS which the Group adopted effective for annual periods beginning on or after January 1, 2022:

- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. There is no transition relief for first-time adopters.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments specify which costs shall be included when assessing whether a contract is onerous or loss-making. The ‘costs of fulfilling’ a contract comprise the ‘costs that relate directly to the contract’. These costs can either be incremental (e.g., the costs of direct labor and materials) or can be an allocation of costs directly related to fulfilling a contract (e.g., depreciation of fixed assets). At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as applicable. Accordingly, the comparatives are not restated.
- Annual Improvements to PFRS 2018 to 2020 Cycle:
 - Amendment to PFRS 9, *Financial Instruments - Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities* – The amendment clarifies which fees an entity shall include when it applies the ‘10 per cent’ test in assessing whether to derecognize a financial liability (i.e. whether the terms of a new or modified financial liability is substantially different from the terms of the original financial liability). These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf. The amendment applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applied the amendment.
 - Amendment to PFRS 16, *Leases - Lease Incentives* – The amendment removes from the Illustrative Example 13 the illustration of the reimbursement of leasehold improvements by the lessor. The objective of the amendment is to avoid any potential confusion regarding the treatment of lease incentives because of how the requirements for lease incentives are illustrated.

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

Amended PFRS Issued but Not yet Effective

Relevant amended PFRS, which are not yet effective as at December 31, 2022 and have not been applied in preparing the consolidated financial statements, are summarized below.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.
- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.
- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments should be applied on a modified retrospective basis. Earlier application is permitted.

Effective for annual periods beginning on or after January 1, 2024:

- Amendments to PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity’s right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted. If applied in earlier period, the Company shall also apply Amendments to PAS 1 - *Noncurrent Liabilities with Covenants* for that period.

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries, which it controls as at December 31 of each year. The Parent Company has control when it is exposed, or has right, to variable returns from its investment with the investee and it has the ability to affect those returns through its powers over the investee.

The wholly-owned subsidiaries of the Parent Company are as follows:

| | Line of Business | Principal Place of Business |
|---|------------------------------|-----------------------------|
| Paxys N.V. | Investment holding | Curacao |
| Paxys Ltd. | Investment holding | Hong Kong |
| SWA | Business process outsourcing | Philippines |
| Paxys Realty, Inc. (PRI) | Real estate | Philippines |
| Paxys Global Services Pte. Ltd. (PGSPL) | Business process outsourcing | Singapore |
| Regional Operating Headquarters of PGSPL (PGS ROHQ) | Shared services | Philippines |

PRI, PGSPL and PGS ROHQ are currently not in operations.

Each entity determines its own functional currency, which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity, and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of all the subsidiaries, except Paxys N.V. and Paxys Ltd., is the Philippine Peso. The functional currency of Paxys N.V. and Paxys Ltd. is the United States Dollar (US\$). As at reporting date, the assets and liabilities of Paxys N.V. and Paxys Ltd. have been translated to the functional and presentation currency of the Parent Company (the Philippine Peso) at the closing exchange rate, while the profit and loss accounts are translated using weighted average exchange rate. The exchange differences arising on the translation of these accounts recorded in the “Cumulative translation adjustment,” a separate component of equity included as part of “Other equity reserves.”

Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Parent Company obtains control and continue to be consolidated until the date such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of equity interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; or
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The separate financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using uniform accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets and liabilities of the former subsidiary from the consolidated statement of financial position;
- Recognizes any investment retained in the former subsidiary when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant PFRS. The remaining equity interest is remeasured and the remeasured value is regarded as the fair value on initial recognition of a financial asset, when appropriate, the cost on initial recognition of an investment in an associate or joint venture; and
- Recognizes the gain or loss associated with the loss of control attributable to the former controlling interest.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are recognized as expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured. Subsequent settlement is accounted for within equity. In instance where the contingent consideration does not fall within the scope of PFRS 9, it is measured in accordance with the appropriate PFRS.

Financial Assets and Liabilities

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

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those measured or designated at FVPL, includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

Financial Assets

Classification. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at FVOCI. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not sole payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

This category includes investments in Unit Investment Trust Fund (UITF).

Financial Assets at FVOCI. For debt instruments, financial assets should be measured at fair value through other comprehensive income if both of the following conditions are met:

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

For equity instruments, the Group irrevocably designates the financial asset to be measured at FVOCI notwithstanding the foregoing conditions.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When debt instruments carried at FVOCI are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in other comprehensive income and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

This category includes investments in various bonds.

Financial Assets at Amortized Cost. A financial asset should be measured at amortized cost if both of the following conditions are met:

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized, impaired and through an amortization process.

Financial assets at amortized cost are included under current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Group classifies its cash and cash equivalents, trade and other receivables, investment in bonds and rental and security deposits under this category.

Financial Liabilities

Classification. The Group classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group's business model and its contractual cash flow characteristics.

The Group does not have financial instruments classified as financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost unless either the financial liability is held for trading and is therefore required to be measured at FVPL or the entity elects to measure the liability at FVPL. Financial liabilities are recognized when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. These financial liabilities are initially recognized at fair value less any directly attributable transaction costs.

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

The Group classifies its trade and other payables (excluding statutory payables), lease liabilities and other noncurrent liabilities under this category.

Reclassification

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

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

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

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

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

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

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

Impairment of Financial Assets

The Group assesses at the end of each reporting year whether a financial asset or a group of financial assets is impaired.

The Group recognizes impairment loss based on expected credit loss (ECL), which is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group calculates impairment based on lifetime ECL using a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortized cost, which comprise cash equivalents, investment securities, other receivables (including due from related parties) and rental and security deposits, ECL is based on 12-month ECL, which pertains to the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the reporting date.

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, that is available without undue cost or effort and indicative of significant increases in credit risk since initial recognition.

For a financial asset that is credit-impaired at the reporting date, an entity should measure the ECL as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events, among others: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event or (c) the disappearance of an active market for that financial asset because of financial difficulties. It may not be possible to identify a single discrete event instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial assets are written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Derecognition of Financial Assets and Liabilities

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

- The rights to receive cash flows from the asset has expired; or
- The Group 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 Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and benefits of the asset, or (b) has neither transferred nor retained substantially all the risks and benefits of the asset, but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

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, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

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

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

Other Current Assets

Other current assets, which consist of input value-added tax (VAT) and prepaid expenses, are carried at face value, net of allowance for impairment losses.

Input VAT. Input VAT represents the net amount of VAT recoverable from the tax authority. Revenue, expenses and assets are recognized, net of the amount of VAT, except where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority.

Prepaid Expenses. Prepaid expenses are expenses paid in advance and recorded as assets before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and recognized in profit or loss when incurred. Prepaid expenses that are expected to be realized within 12 months after the reporting year are classified as current assets. Otherwise, these are classified as other noncurrent assets.

Prepaid expenses include creditable withholding taxes (CWT) which represents the amount of tax withheld by the lessees in relation to the Group's rent income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. Unutilized CWT can also be claimed for refund and cannot be withdrawn. CWT that is expected to be utilized as payment for income taxes within 12 months after the reporting year is classified as current assets. Otherwise, this is classified as other noncurrent asset.

Investments in Joint Ventures

The Parent Company has interests in joint ventures, whereby the venturers have a contractual arrangement that establishes joint control. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

Interest in a joint venture is initially recognized at cost and subsequently accounted for under the equity method of accounting. Under the equity method of accounting, the interest in a joint venture is carried at cost plus post-acquisition changes in the Group's share in the net assets of the joint venture, less any impairment in value. The share in the results of the operations of the joint venture is recognized in profit or loss. The Group's share of post-acquisition movements in the joint venture's equity reserves is recognized directly in equity.

Profits or losses resulting from the transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the interest. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognizing its share of further losses.

After the application of the equity method, the Group determines at the end of each reporting year whether there is any objective evidence that the investment may be impaired. If this is the case, the amount of impairment is calculated as the difference between the carrying amount of the investment and recoverable amount and recognizes the difference in profit or loss.

After the Group's investment is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes the recognition of its share of those profits only after its share of the profits equals the share of losses not previously recognized.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation, amortization and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged to profit or loss in the year these are incurred.

Major renovations that qualify for capitalization are depreciated and amortized over the remaining useful life of the related asset or up to the date of the next major renovation, whichever is shorter.

Depreciation and amortization are calculated using the straight-line method to allocate the cost over the estimated useful lives of the assets as follows:

| <u>Asset Type</u> | <u>Number of Years</u> |
|--|---------------------------------------|
| Computer equipment | 3 to 5 |
| Communication equipment | 3 to 5 |
| Leasehold improvements | 5 or lease term, whichever is shorter |
| Office furniture, fixtures and equipment | 2 to 5 |
| Transportation equipment | 5 |

Depreciation and amortization commence when an asset is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization cease at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the asset is derecognized.

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

Fully depreciated property and equipment are retained in the books until these are no longer being used in the operations.

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, amortization and any impairment are derecognized. Gains and losses on disposals or retirement are determined by comparing the proceeds with the carrying amount of the assets and are recognized in profit or loss.

Intangible Assets

Intangible assets are composed of computer software and programs.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any impairment losses.

Intangible assets are amortized over the estimated economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with finite lives are amortized over three to five years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

The carrying amount of right-of-use (ROU) assets, property and equipment, intangible assets and investments in joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Nonfinancial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognized in prior years 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 or amortization, had no impairment loss been recognized. After such a reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining estimated useful lives.

Equity

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

Additional Paid-in Capital. Additional paid-in capital includes any premium received in the initial issuances of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax.

Parent Shares Held by a Subsidiary. Where any entity of the Group purchases the Parent Company's shares (treasury stock), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related tax effect, is included in equity.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of the changes in accounting policy and other capital adjustments.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented as other equity reserves under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year. Other comprehensive income (loss), which is presented as "Other equity reserves," includes cumulative translation adjustment, cumulative fair value changes on investment securities and cumulative remeasurement gains or losses on retirement liability.

Revenue Recognition

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

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

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

Service Income. Revenue is recognized as services are rendered.

Other Income. Revenue is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Group.

Interest income is outside the scope of PFRS 15. Specific recognition criteria is as follows:

Interest Income. Revenue is recognized as the interest accrues using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Cost and Expense Recognition

Costs and expenses are decreases in economic benefits during the year in the form of outflows, decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants.

Cost of Services. Costs of services are recognized as expenses when the related services are rendered.

General and Administrative Expenses. General and administrative expenses constitute the costs of administering the business and costs incurred to sell and market the services. These expenses are recognized in profit or loss as incurred.

Interest Expense. Interest expense is recognized on lease liabilities which are measured at amortized cost using the effective interest method.

Employee Benefits

Short-term Benefits. The Group recognizes a liability net of amounts already paid and an expense for services rendered by employees during the year. Short-term benefits given by the Group to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided. The unpaid portion of the short-term employee benefits is measured on an undiscounted basis and is included as part of "Trade and Other Payables" account in the consolidated statement of financial position.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. The calculation of defined benefit obligations is performed by a qualified actuary.

The Group recognizes service costs, comprising of current service costs, and interest cost or income in profit or loss. Net interest is calculated by applying the discount rate to the retirement liability.

Remeasurements of the retirement liability, which comprise actuarial gains and losses, are recognized immediately in other comprehensive income.

The retirement liability is the present value of the defined benefit obligation. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rate of government bonds that have terms to maturity approximating the terms of the related retirement and other long-term benefits liability.

Actuarial valuations are made annually so that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

Termination Benefits. Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Leases

The Group as a Lessee. The Group recognizes ROU assets and lease liabilities at the lease commencement date. The ROU assets are initially measured at cost comprising the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date less any lease incentives received, any initial direct and restoration costs.

The ROU assets are measured subsequently at cost, less amortization and any impairment losses. In addition, the cost is subsequently adjusted for any remeasurement of the lease liabilities resulting from reassessments or lease modifications.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liabilities comprise of the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
 - variable lease payments that are based on an index or a rate
 - amounts expected to be payable by the lessee under residual value guarantees
 - the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise an extension or termination option.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis of accounting as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group as a Lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Foreign Currencies

Transactions and Balances. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Foreign Operations. The assets and liabilities of foreign operations are translated into Philippine Peso at the rate of exchange ruling at financial reporting date and, the profit and loss amounts are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to "Cumulative translation adjustment," a separate component of equity included as part of "Other equity reserves." Upon disposal of a foreign operation, the cumulative translation adjustment relating to that particular foreign operation is recognized in profit or loss.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

Deferred Tax. Deferred tax is provided on all temporary differences at the end of reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax liability is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss. Also, deferred tax liabilities are not provided on taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures when the parent, investor, joint venturer or joint operator is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits (excess of minimum corporate income taxes or MCIT over regular corporate income taxes or RCIT) and unused tax losses (net operating loss carryover or NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

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

Deferred tax relating to items recognized outside profit or loss (either in other comprehensive income or directly in equity) is recognized outside profit or loss (either in other comprehensive income or directly in equity).

Related Party Relationship and Transactions

Related party transactions consist of transfers of resources, services or obligations between the Group and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

Earnings (Loss) per Share

The Group presents basic and diluted earnings (loss) per share. Basic and diluted earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of common shares outstanding during the year, excluding parent shares held by a subsidiary.

There are no potential dilutive common shares as at December 31, 2022 and 2021.

Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. The operating results of an operating segment are reviewed regularly by the chief operating decision maker, which is defined to be the Parent Company's BOD, to determine the resources to be allocated to the segment and assess its performance, and for which financial information is available.

Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the year to acquire property and equipment and intangible assets.

Provisions and Contingencies

Provisions are recognized when the Group 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 pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Events after the Reporting Year

Post year-end events that provide additional information about the Group's financial position at the end of reporting year (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are non-adjusting events are disclosed in the notes to consolidated financial statements, when material.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. The Group makes accounting estimates and uses assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as these become reasonably determinable.

Judgments, accounting estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group believes the following represent a summary of significant judgments, accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities, as well as to the related revenues and expenses, within the next year, and related impact and associated risk in the consolidated financial statements.

Judgments

In the process of applying the Group's accounting policies, management exercises judgment on the following items, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determining the Functional Currency. Based on the economic substance of the underlying circumstances, the Group has determined that its functional currency is the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Parent Company and certain subsidiaries operate. It is the currency that mainly influences the sale of services and the costs of providing the services.

Recognizing Service Revenue. For revenue recognized over time, the Group recognizes revenue if any of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group performance as the entity performs.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time.

The Group does not incur costs to obtain contracts with customers and does not provide ancillary services to the lessees under its sublease agreements.

Revenue on data conversion and managed facility and support services, amounting to ₱29.0 million, ₱44.7 million and ₱54.6 million in 2022, 2021 and 2020, respectively, are recognized in profit or loss over time.

Determining the Operating Segments. Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Company's chief operating decision maker in order to allocate resources to the segment and assess its performance. The Parent Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) its assets are 10% or more of the combined assets of all operating segments.

The Group determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment (see Note 4).

Recognizing the Deferred Tax Liability on Undistributed Income of a Foreign Subsidiary. Since Paxys N.V., a company incorporated and domiciled in Curacao, is a wholly owned subsidiary of the Parent Company, management believes that the Parent Company can control the timing of the dividend distribution of Paxys N.V. to the Parent Company and it is probable that the temporary difference will not reverse in the foreseeable future. Thus, no deferred tax liability was recognized on the undistributed income of Paxys N.V. Unrecognized deferred tax liability on undistributed income of a foreign subsidiary amounted to ₱808.6 million and ₱792.8 million as at December 31, 2022 and 2021, respectively (see Note 20).

Determining the Classification of Financial Instruments. Classification of financial instruments under PFRS 9 depends on the results of the business model test and “sole payment of principal and interest” (SPPI) test performed by the Group. The Group exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives.

The classification of various financial assets and liabilities of the Group are disclosed in Note 2.

Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates. The Group, as a lessee, has various lease agreements with third parties for office space, parking space, storage and equipment.

The Group has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The leases are renewable upon mutual agreement by both parties or by the option of the lessee to be covered by a separate and new lease agreement. Accordingly, the renewal option was not considered in the lease term.

Significant management judgment was likewise exercised by the Group in determining the discount rate to be used in calculating the present value of ROU assets and lease liabilities. The discount rate of 4% also served as the incremental borrowing rate of the Group.

Rent expense amounting to ₱0.8 million, ₱2.0 million, ₱0.3 million in 2022, 2021, and 2020, respectively, includes rent on low-value asset leases on storage and equipment (see Note 22).

As at December 31, 2022 and 2021, ROU assets amounted to ₱43.9 million and ₱48.8 million, respectively. Amortization on ROU assets amounted to ₱17.2 million in 2022, ₱15.2 million in 2021, and ₱14.8 million in 2020 (see Note 22).

As at December 31, 2022 and 2021, lease liabilities amounted to ₱45.0 million and ₱50.0 million, respectively. Interest expense on lease liabilities amounted to ₱1.9 million, ₱1.5 million, and ₱1.3 million in 2022, 2021, and 2020, respectively (see Note 22).

The Group, as a lessor, has existing lease agreements for the sublease of its office space. The Group has determined that it retains the significant risk and benefits of ownership over the leased properties. Accordingly, the Company accounts for the lease agreements as operating leases.

Rent income amounted to ₱3.7 million, ₱3.1 million and ₱3.2 million in 2022, 2021 and 2020, respectively (see Note 22).

Evaluating Contingencies. The Group is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Group’s management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements.

Estimates and Assumptions

The key assumptions concerning future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when these occur.

Determining the Fair Value of Financial Instruments. Certain financial assets are carried at fair value and whose fair values are disclosed, which requires extensive use of accounting estimates. When the fair values of financial assets recorded or disclosed in the consolidated statements of financial position cannot be measured based on quoted prices in active market, their fair value is measured using valuation techniques including the Discounted Cash Flow model. The inputs to this model are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Fair values of financial assets and liabilities are presented in Note 23, *Financial Instruments*.

Assessing Impairment Losses on Financial Assets. Impairment losses on financial assets are determined based on expected credit losses. In assessing the expected credit losses, the Group uses historical loss experience adjusted for forward-looking factors, as appropriate.

The Group's cash and cash equivalents are maintained at reputable financial institutions with good industry rating and score.

For investment securities, except for financial assets at FVPL, the Group estimates impairment based on 12-month expected credit loss. Investment securities at amortized cost and FVOCI, which have credit quality equivalent to "high grade" and have low credit risk at reporting date, are presumed to have no significant increase in credit risk since initial recognition.

The Group estimates impairment on trade receivables based on lifetime expected credit loss using a provision matrix that is based on days past due and takes into consideration historical credit loss experience, adjusted for forward-looking factors, as applicable. Management recognizes losses on credit-impaired receivables from related parties considering its ability to pay based on its available assets.

No provision for impairment losses on financial assets at amortized cost and FVOCI were recognized in 2022, 2021 and 2020.

The carrying amounts of financial assets at amortized cost and FVOCI as at December 31, 2022 and 2021 are as follows:

| | Note | 2022 | 2021 |
|------------------------------|------|-------------------|------------|
| Cash and cash equivalents | 5 | ₱2,847,269 | ₱2,142,257 |
| Investment securities at: | 6 | | |
| Amortized cost | | 238,093 | 705,597 |
| FVOCI | | 833,672 | 831,507 |
| Trade and other receivables | 7 | 62,024 | 37,681 |
| Rental and security deposits | 22 | 5,119 | 3,592 |

Assessing Impairment Losses on Input VAT. The provision for impairment losses on input VAT is maintained at a level considered adequate to provide for potentially unrecoverable claims. The Group, on a continuing basis, makes a review of the status of the claims, designed to identify those to be provided with any impairment losses. In these cases, management uses judgment based on the best available facts and circumstances. The amount and timing of recorded expenses for any year would therefore differ based on the judgments or estimates made.

The carrying amount of input VAT amounted to ₱27.0 million and ₱25.4 million as at December 31, 2022 and 2021, respectively. Allowance for impairment losses on input VAT amounted to ₱49.6 million as at December 31, 2022 and 2021 (see Note 8).

Estimating the Useful Lives of Nonfinancial Assets. The estimated useful life of each of the items of property and equipment and intangible assets is estimated based on the year over which the assets are expected to be available for use. Such estimation is based on a collective assessment of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed at each financial year end and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A change in the estimated useful life on property and equipment and intangible assets would impact the recorded expenses and noncurrent assets.

There is no change in the estimated useful lives of property and equipment and intangible assets in 2022, 2021 and 2020.

The carrying amount of property and equipment and intangible assets are as follows:

| | Note | 2022 | 2021 |
|------------------------|------|---------------|--------|
| Property and equipment | 10 | ₱1,270 | ₱2,016 |
| Intangible assets | 11 | 28 | 41 |

Assessing the Impairment of Nonfinancial Assets. The Group assesses at the end of each reporting year whether there is any indication that the nonfinancial assets listed below may be impaired. If such an indication exists, the Group estimates the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators. In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The carrying amount of nonfinancial assets that are subject to impairment assessment when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenue or other external indicators) are as follows:

| | Note | 2022 | 2021 |
|------------------------|------|----------------|---------|
| ROU assets | 22 | ₱43,944 | ₱48,790 |
| Property and equipment | 10 | 1,270 | 2,016 |
| Intangible assets | 11 | 28 | 41 |

Investments in joint ventures are fully provided with allowance for impairment losses as at December 31, 2022 and 2021 (see Note 9).

Determining Retirement Liability. The determination of the cost of retirement benefits and related retirement liability is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. The assumptions, which include among others, discount rate and salary increase rate are described in Note 13.

Actual results that differ from the assumptions are accumulated and are recognized as part of other comprehensive income. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience of significant changes in the assumptions may materially affect the retirement liability.

Retirement liability amounted to ₱6.3 million and ₱9.3 million as at and December 31, 2022 and 2021, respectively. The retirement benefits expense amounted to ₱0.5 million, ₱0.8 million and ₱1.4 million in 2022, 2021 and 2020, respectively (see Note 13).

Assessing the Realizability of Deferred Tax Assets. The Group reviews the carrying amounts at the end of each reporting year and reduces the amount of deferred tax assets to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets as at December 31, 2022 and 2021 were not recognized because management believes that sufficient future taxable income may not be available against which the carry forward benefits of NOLCO, excess of MCIT over RCIT and other deductible temporary differences may be utilized. Unrecognized deferred tax assets amounted to ₱57.3 million and ₱59.9 million as at December 31, 2022 and 2021, respectively (see Note 20).

4. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the services provided, with each segment representing a strategic business unit that offers different services and serves different market.

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, property and equipment and intangible assets. Segment liabilities include all operating liabilities and consist principally of trade and other payables.

Inter-segment Transactions. Segment revenue, segment expenses and segment performance include transfers among business segments. Such transfers are eliminated in consolidation.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating income or loss and is measured consistently with operating income or loss in the consolidated financial statements.

Business segment information is reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources among operating segments. For management purposes, the Group is organized into business units based on the services rendered and has two reportable operating segments as follows:

- Outsourcing – This segment pertains to outsourcing services of the Group which include data conversion, managed services, leasing and subleasing, and other outsourcing services. On March 31, 2022, SWA and its client in the data conversion services terminated its agreement. As a result, employees servicing this customer, were separated effective in April 2022. SWA expanded its managed facility and support services in 2022.
- Others – This segment includes holding and investment companies, which consist of the Parent Company, Paxys N.V., and other non-operating subsidiaries.

Business Segment Information

The following table presents the revenue and expenses and certain assets and liabilities information of the Group's business segments as at and for the years ended December 31, 2022, 2021 and 2020.

| | 2022 | | | Consolidated |
|---------------------------------------|-------------|------------|--------------|--------------|
| | Outsourcing | Others | Eliminations | |
| Results of Operations | | | | |
| Revenue from external customers | P29,044 | P– | P– | P29,044 |
| Cost and expenses | (22,917) | (76,934) | – | (99,851) |
| Operating income (loss) | 6,127 | (76,934) | – | (70,807) |
| Interest income | 125 | 88,504 | – | 88,629 |
| Net foreign exchange gain | 1,719 | 9,752 | (2,178) | 9,293 |
| Other income | 6,379 | 5,445 | – | 11,824 |
| Interest expense on lease liabilities | (700) | (1,217) | – | (1,917) |
| Current income tax expense | (167) | (5,781) | – | (5,948) |
| Net income | P13,483 | P19,769 | (P2,178) | P31,074 |
| Assets and Liabilities | | | | |
| Assets | P59,970 | P5,661,284 | (P1,653,548) | P4,067,706 |
| Liabilities | 74,178 | 197,331 | (189,083) | 82,426 |
| Other Segment Information | | | | |
| Capital expenditures: | | | | |
| Property and equipment | P338 | P157 | P– | P495 |
| Intangible assets | – | 18 | – | 18 |
| Depreciation and amortization | 10,592 | 7,864 | – | 18,456 |

| | 2021 | | | |
|---------------------------------------|-------------|------------|--------------|--------------|
| | Outsourcing | Others | Eliminations | Consolidated |
| Results of Operations | | | | |
| Revenue from external customers | P44,680 | P- | P- | P44,680 |
| Cost and expenses | (32,036) | (76,486) | - | (108,522) |
| Operating loss | 12,644 | (76,486) | - | (63,842) |
| Other income | 4,468 | 8,487 | - | 12,955 |
| Net foreign exchange gain (loss) | 1,156 | 5,763 | (1,088) | 5,831 |
| Interest expense on lease liabilities | (785) | (745) | - | (1,530) |
| Interest income | 5 | 35,583 | - | 35,588 |
| Income tax expense | (75) | (2,340) | - | (2,415) |
| Net income (loss) | P17,413 | (P29,738) | (P1,088) | (P13,413) |
| Assets and Liabilities | | | | |
| Assets | P66,872 | P5,441,405 | (P1,657,819) | P3,850,458 |
| Liabilities | 82,761 | 198,705 | (193,511) | 87,955 |
| Other Segment Information | | | | |
| Capital expenditures: | | | | |
| Property and equipment | P570 | P188 | P- | P758 |
| Intangible assets | - | 15 | - | 15 |
| Depreciation and amortization | 8,595 | 8,500 | - | 17,095 |
| 2020 | | | | |
| | Outsourcing | Others | Eliminations | Consolidated |
| Results of Operations | | | | |
| Revenue from external customers | P54,648 | P- | P- | P54,648 |
| Cost and expenses | (40,756) | (89,504) | - | (130,260) |
| Operating income (loss) | 13,892 | (89,504) | - | (75,612) |
| Other income – net | 81 | 51,262 | - | 51,343 |
| Net foreign exchange gain (loss) | 4,664 | 3,739 | (188) | 8,215 |
| Net foreign exchange gain (loss) | (865) | (4,302) | 964 | (4,203) |
| Interest expense on lease liabilities | (981) | (286) | - | (1,267) |
| Income tax expense | (392) | (4,009) | - | (4,401) |
| Net income (loss) | P16,399 | (P43,100) | P776 | (P25,925) |
| Assets and Liabilities | | | | |
| Assets | P72,357 | P5,274,357 | (P1,653,422) | P3,693,292 |
| Liabilities | 90,177 | 163,457 | (190,361) | 63,273 |
| Other Segment Information | | | | |
| Capital expenditures: | | | | |
| Property and equipment | P476 | P279 | P- | P755 |
| Intangible assets | 71 | 43 | - | 114 |
| Depreciation and amortization | 10,715 | 8,117 | - | 18,832 |

The outsourcing segment is managed and operated in the Philippines. Other reportable segments include the Parent Company and other non-operating companies with excess funds invested in corporate bonds and other short-term deposits from various banks. Interest income earned from these funds amounted to P88.6 million, P35.6 million and P51.3 million in 2022, 2021 and 2020, respectively (see Note 19).

5. Cash and Cash Equivalents

This account consists of:

| | 2022 | 2021 |
|--------------------------------|-------------------|-------------------|
| Cash on hand and cash in banks | P33,626 | P30,470 |
| Cash equivalents | 2,813,643 | 2,111,787 |
| | P2,847,269 | P2,142,257 |

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term investments made for varying periods, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Any pre-termination or redemption prior to maturity date shall not result in significant change in investment values and penalties.

Total interest income earned amounted to P44.6 million, P12.0 million and P33.6 million in 2022, 2021 and 2020, respectively (see Note 19).

6. Investment Securities

This account consists of financial assets measured at:

| | 2022 | 2021 |
|----------------|-------------------|-------------------|
| FVOCI | P833,672 | P831,507 |
| Amortized cost | 238,093 | 705,597 |
| FVPL | - | 45,466 |
| | P1,071,765 | P1,582,570 |

Financial Assets at Amortized Cost

These consist of bonds with fixed interest rate and maturity date until 2023. Interest income earned from these bonds amounted to P17.6 million, P8.0 million and P6.4 million in 2022, 2021 and 2020, respectively (see Note 19).

Movements in financial assets at amortized cost follow:

| | 2022 | 2021 |
|-----------------------------------|-----------------|-----------------|
| Balances at beginning of the year | P705,597 | P522,517 |
| Additions | 1,172,013 | 380,289 |
| Redemption | (1,677,133) | (212,200) |
| Premium amortization | (31,493) | (11,201) |
| Translation adjustment | 69,109 | 26,192 |
| Balances at end of the year | P238,093 | P705,597 |

Financial Assets at FVOCI

These pertain to investment in funds managed by international banks which provide fixed interest income and capital appreciation.

Movements in financial assets at FVOCI follow:

| | 2022 | 2021 |
|-----------------------------------|----------|-----------|
| Balances at beginning of the year | P831,507 | P371,021 |
| Additions | - | 719,416 |
| Redemption | - | (266,889) |
| Unrealized fair value loss | (76,519) | (14,628) |
| Translation adjustment | 78,684 | 22,587 |
| Balances at end of year | P833,672 | P831,507 |

Unrealized fair value loss amounting to P76.5 million in 2022 and P14.6 million in 2021 and fair value gain amounting to P10.2 million in 2020, respectively, were reported in other comprehensive income (loss).

The Group redeemed funds with an aggregate amount of nil in 2022 and P266.9 million in 2021. Gain on redemption recognized in profit or loss amounted to nil, P8.2 million and P22 thousand in 2022, 2021 and 2020, respectively (see Note 19).

Interest income earned from these financial assets amounted to P26.5 million, P15.6 million and P11.3 million in 2022, 2021 and 2020, respectively (see Note 19).

Financial Assets at FVPL

These pertain to investments in unit investment trust fund at local and international banks.

Movements in financial assets at FVPL follow:

| | 2022 | 2021 |
|-----------------------------------|----------|-----------|
| Balances at beginning of the year | P45,466 | P156,262 |
| Redemption | (52,317) | (116,161) |
| Additions | 6,954 | 3,137 |
| Translation gain | - | 1,996 |
| Fair value changes | (103) | 232 |
| Balances at end of year | P- | P45,466 |

Unrealized gain from fair value changes on investment securities at FVPL amounted to nil, P98 thousand, P0.4 million in 2022, 2021, and 2020, respectively (see Note 19).

Realized loss from redemption of investment in UITF amounted to P0.1 million in 2022 and realized gain amounting to P0.1 million and P2.7 million in 2021 and 2020, respectively (see Note 19).

7. Trade and Other Receivables

This account consists of:

| | Note | 2022 | 2021 |
|---------------------------------|------|------------------|----------|
| Trade | | ₱10,958 | ₱15,515 |
| Due from related parties | 15 | 95,632 | 88,701 |
| Accrued interest | | 38,021 | 9,782 |
| Others | | 18,083 | 20,302 |
| | | 162,694 | 134,300 |
| Allowance for impairment losses | | (100,670) | (96,619) |
| | | ₱62,024 | ₱37,681 |

Trade receivables are noninterest-bearing with average credit terms of 30 to 60 days.

Accrued interest is normally received within one year after the reporting date.

Other receivables comprise mainly of receivables from employees which are collectible upon demand.

Provisions for impairment losses recognized amounted to ₱4.1 million in 2022 (see Note 17).

8. Other Current Assets

This account consists of:

| | 2022 | 2021 |
|---|----------------|---------|
| Input VAT, net of allowance for impairment losses | ₱27,049 | ₱25,391 |
| Prepaid expenses | 4,060 | 2,941 |
| | ₱31,109 | ₱28,332 |

Prepaid expenses include prepaid insurance, subscriptions and creditable withholding taxes.

Movements in the allowance for impairment losses on input VAT are as follows:

| | Note | 2022 | 2021 |
|------------------------------|------|----------------|---------|
| Balance at beginning of year | | ₱49,607 | ₱49,600 |
| Provision | 17 | – | 7 |
| Balance at end of year | | ₱49,607 | ₱49,607 |

9. Investments in Joint Ventures

The following are the joint ventures of the Group:

| | Place of Incorporation | Principal Activity | Percentage of Ownership |
|---|------------------------|--------------------|-------------------------|
| Paxys Global Services Dalian Ltd (PGS Dalian) | China | Call center | 50.0% |
| Simpro Solutions Limited (SSL) | Hong Kong | Call center | 50.0% |

The investments in joint ventures, with an aggregate cost of ₱28.7 million, are fully provided with allowance for impairment losses as at December 31, 2022 and 2021.

The Group has no outstanding commitments with the joint ventures as at December 31, 2022 and 2021. The joint ventures have no contingent liabilities or capital investments as at December 31, 2022 and 2021.

10. Property and Equipment

The balances and movements of this account are as follows:

| | | 2022 | | | | | |
|--|------|--------------------|-------------------------|------------------------|--|--------------------------|---------------|
| | | Computer Equipment | Communication Equipment | Leasehold Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | Total |
| | Note | | | | | | |
| Cost | | | | | | | |
| Balances at beginning of year | | ₱110,316 | ₱7,624 | ₱161,048 | ₱15,279 | ₱9,749 | ₱304,016 |
| Additions | | 157 | – | 338 | – | – | 495 |
| Disposal | | (67) | – | (3,153) | (1,408) | – | (4,628) |
| Balances at end of year | | 110,406 | 7,624 | 158,233 | 13,871 | 9,749 | 299,883 |
| Accumulated Depreciation and Amortization | | | | | | | |
| Balances at beginning of year | | 109,848 | 7,624 | 160,075 | 14,704 | 9,749 | 302,000 |
| Depreciation and amortization | 19 | 279 | – | 591 | 352 | – | 1,222 |
| Disposal | | (67) | – | (3,153) | (1,389) | – | (4,609) |
| Balances at end of year | | 110,060 | 7,624 | 157,513 | 13,667 | 9,749 | 298,613 |
| Net Book Value | | ₱346 | ₱– | ₱720 | ₱204 | ₱– | ₱1,270 |
| | | 2021 | | | | | |
| | | Computer Equipment | Communication Equipment | Leasehold Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | Total |
| | Note | | | | | | |
| Cost | | | | | | | |
| Balances at beginning of year | | ₱110,007 | ₱7,624 | ₱160,728 | ₱15,150 | ₱9,749 | ₱303,258 |
| Additions | | 309 | – | 320 | 129 | – | 758 |
| Balances at end of year | | 110,316 | 7,624 | 161,048 | 15,279 | 9,749 | 304,016 |
| Accumulated Depreciation and Amortization | | | | | | | |
| Balances at beginning of year | | 109,210 | 7,624 | 159,563 | 14,184 | 9,749 | 300,330 |
| Depreciation and amortization | 19 | 638 | – | 512 | 520 | – | 1,670 |
| Balances at end of year | | 109,848 | 7,624 | 160,075 | 14,704 | 9,749 | 302,000 |
| Net Book Value | | ₱468 | ₱– | ₱973 | ₱575 | ₱– | ₱2,016 |

As at December 31, 2022 and 2021, fully depreciated property and equipment amounting to ₱63.6 million and ₱68.4 million, respectively are still being used by the Group.

11. Other Noncurrent Assets

This account consists of:

| | Note | 2022 | 2021 |
|---------------------------------------|------|----------------|---------------|
| Creditable withholding tax for refund | | ₱5,178 | ₱4,981 |
| Rental and security deposits | 22 | 5,119 | 3,592 |
| Intangible assets | | 28 | 41 |
| Others | | – | 198 |
| | | ₱10,325 | ₱8,812 |

Rental and security deposits mainly pertain to cash deposits on lease agreements, which are refundable at the end of the lease period.

Intangible assets pertain to computer software and programs, which are amortized over three to five years.

Movements in this account are as follows:

| | Note | 2022 | 2021 |
|---------------------------------|------|----------------|------------|
| Cost | | | |
| Balance at beginning of year | | ₱15,606 | ₱15,591 |
| Additions | | 18 | 15 |
| Balance at end of year | | 15,624 | 15,606 |
| Accumulated Amortization | | | |
| Balance at beginning of year | | 15,565 | 15,345 |
| Amortization | 19 | 31 | 220 |
| Balance at end of year | | 15,596 | 15,565 |
| Net Book Value | | ₱28 | ₱41 |

Others consist of claims for tax refund expected to be received beyond 12 months after the reporting year.

12. Trade and Other Payables

This account consists of:

| | Note | 2022 | 2021 |
|---------------------|------|----------------|----------------|
| Trade | | ₱2,105 | ₱1,899 |
| Accrued expenses: | | | |
| Professional fees | | 3,571 | 2,588 |
| Contracted services | | 2,929 | 2,965 |
| Taxes and licenses | | 1,753 | 1,753 |
| Salaries and wages | | 377 | 2,054 |
| Rent | | 292 | 600 |
| Dividends | 14 | 6,554 | 6,554 |
| Statutory payables | | 6,298 | 6,655 |
| Others | | 4,081 | 1,732 |
| | | ₱27,960 | ₱26,800 |

Trade payables are noninterest-bearing and are normally settled on a 60-day term.

Accrued expenses are normally settled within 30 to 60 days.

Statutory payables represent withholding taxes payable, SSS, HDMF and PhilHealth premiums, and other liabilities to the government agencies.

Others mainly pertain to advance payments received from customers of SWA.

13. Retirement Benefits

The Parent Company and SWA maintain separate unfunded, non-contributory, and defined benefit plans covering all eligible employees. An independent actuary conducts an actuarial valuation of the retirement liability. The latest actuarial report is as at December 31, 2021 for the Parent Company. Management has assessed that the Parent Company's and SWA's estimates of retirement expense and retirement liability as at and for the year ended December 31, 2022 do not significantly differ had the Company obtained an updated actuarial valuation in 2022.

The retirement benefits expense recognized in the consolidated statements of income is as follows (see Note 18):

| | 2022 | 2021 | 2020 |
|-----------------------|-------------|------|--------|
| Current service costs | ₱114 | ₱332 | ₱660 |
| Interest costs | 427 | 455 | 697 |
| | ₱541 | ₱787 | ₱1,357 |

The net cumulative remeasurement gains (losses) on retirement liability recognized as other comprehensive income follows:

| | 2022 | 2021 | 2020 |
|--------------------------------------|----------------|--------|----------|
| Balance at beginning of year | ₱4,457 | ₱1,358 | (₱1,896) |
| Remeasurement gain | 851 | 3,099 | 3,254 |
| Derecognition of remeasurement gains | (5,603) | - | - |
| Balance at end of year | (₱295) | ₱4,457 | ₱1,358 |

Changes in the present value of retirement liability are as follows:

| | Note | 2022 | 2021 |
|---------------------------------|------|----------------|---------|
| Balance at beginning of year | | ₱9,335 | ₱11,647 |
| Current service costs | | 114 | 332 |
| Interest costs | | 427 | 455 |
| Payment of retirement liability | 4 | (2,688) | - |
| Remeasurement gain | | (851) | (3,099) |
| Balance at end of year | | ₱6,337 | ₱9,335 |

The principal assumptions used in determining the retirement liability are shown below:

| | 2022 | 2021 |
|----------------------|-------|-------|
| Discount rate | 7.00% | 5.08% |
| Salary increase rate | 2.00% | 2.00% |

The sensitivity analysis based on reasonably possible changes of the assumptions as at December 31, 2022 is as follows:

| | Change in Assumption | Effect on Retirement Liability |
|---------------|----------------------|--------------------------------|
| Discount rate | +100 bps | (P1,132) |
| | -100 bps | 1,400 |
| Salary rate | +100 bps | 1,461 |
| | -100 bps | (1,192) |

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit liability at the end of each reporting date after adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The corresponding change in the defined benefit liability was expressed as a percentage change from the base defined benefit liability.

As at December 31, 2022, expected future benefit payments are shown below:

| | |
|----------------------|--------|
| Within one year | P4,383 |
| More than five years | 511 |
| | P4,894 |

The weighted average duration of the defined benefit obligation at the end of the reporting year is at 5.4 years.

14. Equity

Capital Stock

This account consists of the following:

| | Number of Shares | Amount |
|---------------------------------------|---------------------|------------|
| Common Stock "Class A" - P1 par value | | |
| Authorized | 1,800,000,000 | P1,800,000 |
| Issued and outstanding | 1,148,534,866 | 1,148,535 |

**Number of shares and par value figures are stated at absolute values.*

Additional Paid-in Capital

This account consists of:

| | |
|--|----------|
| Premium on issuance of shares of stock | P348,213 |
| Premium on forfeited stock option | 103,151 |
| | P451,364 |

Premium on issuance of shares of stock represents the excess of paid-up capital over the par value of capital stock. Premium on forfeited stock option represents increase in equity arising from equity-settled share-based payment transactions.

Parent Shares Held by a Subsidiary

In 2014, Paxys N.V., through a tender offer, completed the purchase of 345,622,477 common shares of the Parent Company representing 30.09% of its outstanding capital stock for a total consideration of ₱1,149.9 million.

Retained Earnings

Undistributed retained earnings of a foreign subsidiary amounting to ₱3,234 million and ₱3,171 million as at December 31, 2022 and 2021, respectively, are not available for dividend declaration until these are distributed by the subsidiary to the Parent Company.

Dividends payable of the Parent Company as at December 31, 2022 and 2021 amounted to ₱6.6 million, which pertain to dividends declared in prior years (see Note 12).

15. Related Party Transactions and Balances

In the normal course of business, the Group has transactions and balances with related parties pertaining to noninterest-bearing advances as follows:

| Related Party | Year | Transactions during the Year | Due from Related Parties (see Note 7) |
|-----------------------------------|-------------|------------------------------|---------------------------------------|
| Joint Venture | 2022 | ₱262 | ₱16,281 |
| | 2021 | 134 | 16,019 |
| Entities with Common Stockholders | 2022 | 6,669 | 79,351 |
| | 2021 | 4,476 | 72,682 |
| | 2022 | | ₱95,632 |
| | 2021 | | 88,701 |

Outstanding balances are unsecured, noninterest-bearing with no fixed repayment terms and are normally settled in cash. No guarantees have been provided or received for these balances. Impairment assessment is undertaken at each reporting date.

Allowance for impairment losses related to these receivables amounted to ₱73.4 million in 2022 and ₱69.3 million as at December 31, 2022 and 2021, respectively (see Note 7).

Compensation of Key Management Personnel of the Group

| | 2022 | 2021 | 2020 |
|---------------------------|----------------|---------|---------|
| Salaries and wages | ₱13,919 | ₱13,919 | ₱13,919 |
| Professional fees | 7,168 | 5,124 | 7,102 |
| Retirement benefits | – | – | 547 |
| Other short-term benefits | 2,643 | 2,590 | 4,004 |
| | ₱23,730 | ₱21,633 | ₱25,572 |

16. Cost of Services

This account consists of:

| | Note | 2022 | 2021 | 2020 |
|----------------------------------|------|----------------|---------|---------|
| Depreciation and amortization | 19 | ₱10,592 | ₱8,266 | ₱10,473 |
| Personnel cost | 18 | 3,684 | 12,821 | 18,589 |
| Utilities | | 3,313 | 3,068 | 3,046 |
| Security and janitorial services | | 2,203 | 2,935 | 2,910 |
| Communication | | 1,774 | 3,197 | 3,180 |
| Rent | 22 | 294 | 109 | 128 |
| Association dues | | 206 | 252 | 267 |
| Supplies | | 40 | 147 | 225 |
| Others | | 811 | 1,241 | 1,938 |
| | | ₱22,917 | ₱32,036 | ₱40,756 |

Others pertain to insurance, transportation and travel, taxes and licenses, dues and repairs and maintenance and other miscellaneous expenses.

17. General and Administrative Expenses

This account consists of:

| | Note | 2022 | 2021 | 2020 |
|--|------|----------------|---------|---------|
| Professional fees | | ₱26,617 | ₱24,022 | ₱37,472 |
| Personnel cost | 18 | 22,163 | 26,064 | 29,397 |
| Depreciation and amortization | 19 | 7,864 | 8,829 | 8,359 |
| Provision for impairment loss on receivables | 7 | 4,051 | – | – |
| Bank charges | | 2,921 | 2,348 | 1,483 |
| Utilities | | 2,795 | 2,694 | 2,598 |
| Communication | | 1,904 | 1,716 | 1,742 |
| Insurance | | 1,450 | 1,600 | 1,787 |
| Security and janitorial services | | 1,431 | 1,404 | 1,397 |
| Entertainment, amusement and recreation | | 702 | 441 | 375 |
| Membership dues | | 593 | 600 | 653 |
| Rent | 22 | 550 | 1,879 | 123 |
| Transportation and travel | | 470 | 370 | 304 |
| Provision for impairment losses on input VAT | 8 | – | 7 | 9 |
| Others | | 3,423 | 4,512 | 3,805 |
| | | ₱76,934 | ₱76,486 | ₱89,504 |

18. Personnel Costs

This account consists of:

| | Note | 2022 | 2021 | 2020 |
|-------------------------|------|----------------|----------------|----------------|
| Salaries and wages | | ₱23,029 | ₱31,771 | ₱37,308 |
| Retirement benefits | 13 | 541 | 787 | 1,357 |
| Trainings | | 74 | 103 | 272 |
| Other employee benefits | | 2,203 | 6,224 | 9,049 |
| | | ₱25,847 | ₱38,885 | ₱47,986 |

Other employee benefits pertain mainly to statutory contributions, incentives, and health care and insurance benefits of employees.

Personnel costs are allocated as follows:

| | Note | 2022 | 2021 | 2020 |
|-------------------------------------|------|----------------|----------------|----------------|
| Cost of services | 16 | ₱3,684 | ₱12,821 | ₱18,589 |
| General and administrative expenses | 17 | 22,163 | 26,064 | 29,397 |
| | | ₱25,847 | ₱38,885 | ₱47,986 |

19. Interest Income, Other Income, Depreciation and Amortization

Interest Income

| | Note | 2022 | 2021 | 2020 |
|---------------------------|------|----------------|----------------|----------------|
| Cash and cash equivalents | 5 | ₱44,573 | ₱11,973 | ₱33,604 |
| Investment securities: | 6 | | | |
| Financial assets at: | | | | |
| FVOCI | | 26,486 | 15,601 | 11,340 |
| Amortized cost | | 17,570 | 8,014 | 6,399 |
| | | ₱88,629 | ₱35,588 | ₱51,343 |

Other Income

| | Note | 2022 | 2021 | 2020 |
|---|------|----------------|----------------|---------------|
| Rent | 22 | ₱3,666 | ₱3,095 | ₱3,198 |
| Gain on redemption of investment securities at: | | | | |
| FVPL | 6 | (103) | 134 | 2,697 |
| FVOCI | 6 | — | 8,243 | 22 |
| Unrealized fair value gain on investment securities at FVPL | 6 | — | 98 | 359 |
| Reversal of long-outstanding trade and other payables | 12 | — | — | 788 |
| Others | | 8,261 | 1,385 | 1,151 |
| | | ₱11,824 | ₱12,955 | ₱8,215 |

Others pertain to income from sublease of office and parking spaces to third parties.

Depreciation and Amortization

This account consists of:

| | Note | 2022 | 2021 | 2020 |
|------------------------|------|----------------|---------|---------|
| ROU assets | 22 | ₱17,203 | ₱15,205 | ₱14,786 |
| Property and equipment | 10 | 1,222 | 1,670 | 3,862 |
| Intangible assets | 11 | 31 | 220 | 184 |
| | | ₱18,456 | ₱17,095 | ₱18,832 |

Depreciation and amortization are allocated as follows:

| | Note | 2022 | 2021 | 2020 |
|-------------------------------------|------|----------------|---------|---------|
| Cost of services | 16 | ₱10,592 | ₱8,266 | ₱10,473 |
| General and administrative expenses | 17 | 7,864 | 8,829 | 8,359 |
| | | ₱18,456 | ₱17,095 | ₱18,832 |

20. Income Taxes

- a. The components of current income tax expense as presented in the consolidated statements of income are as follows:

| | 2022 | 2021 | 2020 |
|-----------|---------------|---------------|--------|
| Final tax | ₱5,679 | ₱2,341 | ₱4,009 |
| MCIT | 269 | 74 | 392 |
| | ₱5,948 | ₱2,415 | ₱4,401 |

- b. The reconciliation of income tax expense (benefit) computed at statutory tax rate and income tax expense as shown in the consolidated statements of income is as follows:

| | 2021 | 2021 | 2020 |
|---|-----------------|---------------|----------|
| Income tax expense (benefit) at statutory income tax rate | ₱9,256 | (₱2,750) | (₱6,457) |
| Net changes in unrecognized net deferred tax assets | (2,564) | (15,442) | 9,121 |
| Effect of changes in income tax rate | - | 13,220 | - |
| Income tax effects of: | | | |
| Expired NOLCO | 17,436 | 15,064 | 12,650 |
| Nontaxable income | (15,676) | (2,116) | (10,189) |
| Interest income subjected to final tax | (5,417) | (6,556) | (2,047) |
| Others | 2,643 | 869 | 1,112 |
| Expired MCIT | 475 | 208 | 193 |
| Difference in the tax rates of subsidiaries | (205) | (97) | - |
| Expenses subject to 10% preferential income tax rate | - | 15 | 18 |
| | ₱5,948 | ₱2,415 | ₱4,401 |

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act or RA No. 11534 was signed into law on March 26, 2021 and took effect on April 11, 2021 which reduced the corporate income tax rate from 30% to 25% starting July 1, 2020. In 2021, the change in effective tax rate resulted to a reduction in the current income tax expense by ₱0.1 million and increase in comprehensive income by ₱0.1 million.

The composition of current income tax expense in 2021 are as follows:

| | |
|---|---------------|
| Current income tax expense for the taxable year December 31, 2021 | ₱2,513 |
| Impact of change in income tax rate beginning January 1, 2020 | (98) |
| | <u>₱2,415</u> |

c. Details of unrecognized net deferred tax assets are as follows:

| | 2022 | 2021 |
|--|----------------|----------------|
| NOLCO | ₱44,717 | ₱50,040 |
| Allowance for impairment losses on trade and other receivables and refundable deposits | 9,133 | 6,825 |
| Excess MCIT over RCIT | 734 | 940 |
| Others | 2,738 | 2,081 |
| | <u>₱57,322</u> | <u>₱59,886</u> |

Management has assessed that sufficient future taxable income may not be available against which the carry-forward benefits of NOLCO, excess MCIT over RCIT and other deductible temporary differences may be utilized.

As at December 31, 2022 and 2021, the Group did not recognize deferred tax liability on undistributed income of Paxys N.V., a wholly owned subsidiary of the Parent Company, amounting to ₱808.6 million and ₱792.8 million, respectively. Management believes that the Parent Company can control the timing of the dividend distribution of Paxys N.V. to the Parent Company and it is probable that the temporary difference will not reverse in the foreseeable future.

d. Details of carry-forward benefits arising from NOLCO and excess MCIT over RCIT are as follows:

NOLCO

| Year Incurred | Balance as at December 31, 2021 | Additions (Applied) | Expired | Balance as at December 31, 2022 | Available Until |
|---------------|---------------------------------------|------------------------|------------------|---------------------------------------|-----------------|
| 2019 | ₱72,805 | (₱3,060) | (₱69,745) | ₱- | 2022 |
| 2020 | 67,903 | (1,431) | - | 66,472 | 2025 |
| 2021 | 59,606 | - | - | 59,606 | 2026 |
| 2022 | - | 53,562 | - | 53,562 | 2025 |
| | <u>₱200,314</u> | <u>₱49,071</u> | <u>(₱69,745)</u> | <u>₱179,640</u> | |

Under the Republic Act No. 11494, also known as "*Bayanihan to Recover as One Act*", and Revenue Regulation 25-2020, the Company is allowed to carry-over the NOLCO incurred for taxable year 2020 and 2021 for the next five years immediately following the year of such loss.

MCIT

| Year Incurred | Balance as at December 31, 2021 | Additions | Applied/ Expired | Balance as at December 31, 2022 | Available Until |
|---------------|---------------------------------------|-------------|---------------------|---------------------------------------|-----------------|
| 2019 | ₱475 | ₱- | (₱475) | ₱- | 2022 |
| 2020 | 392 | - | - | 392 | 2023 |
| 2021 | 73 | - | - | 73 | 2024 |
| 2022 | - | 269 | - | 269 | 2025 |
| | ₱940 | ₱269 | (₱475) | ₱734 | |

21. Earnings (Loss) per Share

Basic/diluted earnings (loss) per share are computed as follows:

| | Note | 2022 | 2021 | 2020 |
|---|------|------------------|-----------|-----------|
| Net income (loss) (a) | | ₱31,074 | (₱13,413) | (₱25,925) |
| Issued and outstanding shares | 14 | 1,148,535 | 1,148,535 | 1,148,535 |
| Parent shares held by a subsidiary | 14 | (345,622) | (345,622) | (345,622) |
| Number of shares issued and outstanding (b) | | 802,913 | 802,913 | 802,913 |
| Basic/diluted earnings (loss) per share (a/b) | | ₱0.039 | (₱0.017) | (₱0.032) |

There are no potential dilutive common shares as at December 31, 2022, 2021 and 2020.

22. Commitments

Lease Commitments

a. The Group as a Lessee

- i. The Parent Company has an existing lease agreement with a third party for the lease of office space and parking spaces for five years until April 30, 2026. The quarterly rent is subject to escalation rates ranging from 5% to 10% per annum. The lease is renewable upon mutual consent of the parties to be covered by a separate lease agreement. As at December 31, 2022 and 2021, refundable security deposit, amounted to ₱1.4 million.
- ii. SWA has an existing non-cancellable five-year agreement with a third party for the lease of an office space in Laguna until December 31, 2018. This was extended for four years up to December 31, 2022, and was extended for another year and six months until June 2024. The rental rate is subject to an escalation rate of 5% per annum. As at December 31, 2022 and 2021, refundable security deposit amounted to ₱1.5 million.
- iii. On October 21, 2018, SWA entered into a two-year lease agreement with a third party for the lease of an office space in Alabang until October 20, 2020. This was extended for another two years until October 20, 2022 and was no longer renewed thereafter. The rental rate was subjected to an escalation rate of 5% per annum upon renewal. As at December 31, 2022 and 2021 refundable security deposit amounted to ₱0.3 million.

- iv. On July 1, 2022, the Company entered into a two-year lease agreement with a third party for the lease of an office space in Cebu until May 17, 2024. The lease is renewable for another year upon mutual agreement. The rental rate is subject to an escalation rate of 5% per annum effective on the third year of lease term. Refundable security deposit amounted to ₱1.2 million as at December 31, 2022.

Outstanding rental and security deposits on lease commitments, presented under “Other noncurrent assets” in the consolidated statements of financial position, amounted to ₱5.1 million and ₱3.6 million as at December 31, 2022 and 2021, respectively (see Note 11).

Amounts recognized in the consolidated statements of income follow:

| | 2022 | 2021 | 2020 |
|---------------------------------------|----------------|----------------|----------------|
| Amortization on ROU assets | ₱17,203 | ₱15,205 | ₱14,786 |
| Interest expense on lease liabilities | 1,917 | 1,530 | 1,267 |
| Rent expense | 844 | 1,988 | 251 |
| | ₱19,964 | ₱18,723 | ₱16,304 |

Rent expense includes rent on low-value asset leases on storage and equipment.

Amortization of ROU assets is allocated as follows:

| | Note | 2022 | 2021 |
|-------------------------------------|------|----------------|----------------|
| Cost of services | 16 | ₱10,011 | ₱7,130 |
| General and administrative expenses | 17 | 7,192 | 8,075 |
| | | ₱17,203 | ₱15,205 |

Rent expense is allocated as follows:

| | Note | 2022 | 2021 | 2020 |
|-------------------------------------|------|-------------|---------------|-------------|
| General and administrative expenses | 17 | ₱550 | ₱1,879 | ₱123 |
| Cost of services | 16 | 294 | 109 | 128 |
| | | ₱844 | ₱1,988 | ₱251 |

The movements in the ROU assets are presented below:

| | Note | 2022 | 2021 |
|------------------------------|------|----------------|----------------|
| Balance at beginning of year | | ₱48,790 | ₱25,422 |
| Addition | | 13,055 | 38,573 |
| Amortization | 19 | (17,203) | (15,205) |
| Adjustment | | (698) | - |
| Balance at end of year | | ₱43,944 | ₱48,790 |

The movements in the lease liabilities are presented below:

| | 2022 | 2021 |
|------------------------------|----------------|----------|
| Balance at beginning of year | P50,016 | P24,770 |
| Addition | 13,055 | 38,574 |
| Payments | (19,195) | (14,858) |
| Interest expense | 1,917 | 1,530 |
| Adjustment | (830) | - |
| | 44,963 | 50,016 |
| Current portion | 21,293 | 13,902 |
| Noncurrent portion | P23,670 | P36,114 |

The future minimum lease payments under noncancellable leases are as follows:

| | 2022 | 2021 |
|---|----------------|---------|
| Within one year | P8,291 | P15,663 |
| After one year but not more than five years | 19,652 | 38,354 |
| | P27,943 | P54,017 |

b. The Group as a Lessor

SWA also subleased a portion of its office space in Laguna to related parties and third parties, which ended in September 30, 2022. On October 1, 2022, the Company subleased office space to a third party for 21 months from October 1, 2022 to June 30, 2024.

Rent income from subleased portion amounted to P3.7 million, P3.1 million and P3.2 million in 2022, 2021 and 2020, respectively (see Note 19). Security deposit under this sublease agreement, which are presented under other noncurrent liabilities, amounted to P0.3 million as at December 31, 2022 and 2021.

Facilities and Support Services Agreement

SWA entered into facilities and support services agreement for work-ready seats for a period of two years until October 30, 2022. The service agreement provided outsourced facility services, data connectivity, IT support and power for the leased work seats. Security deposit under this agreement, which are presented under other noncurrent liabilities, amounted to P1.3 million as at December 31, 2021 and 2020.

In addition, SWA entered into another agreement with a third party for work-ready seats for a period of two years until May 17, 2024. The service agreement provides outsourced facility services, data connectivity, IT support and power for the leased work seats. Security deposit under this agreement, which are presented under other noncurrent liabilities, amounted to P2.9 million and P1.3 million as at December 31, 2022 and 2021, respectively.

Income earned from this agreement amounted to P21.7 million in 2022 and P14.8 million in 2021 and 2020, as part of the revenues in the consolidated statements of income of the Group.

23. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, investment securities, trade and other receivables, rental and security deposits, and trade and other payables (excluding statutory payables), lease liabilities and other noncurrent liabilities which arise directly from the operations. The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, and liquidity risk. The BOD reviews and agrees policies for managing each of these risks and these are summarized below.

Foreign Currency Risk

The Group's exposure to foreign currency risk results mainly from foreign currency denominated services rendered by SWA and other business transactions of the Group denominated in foreign currencies. The Group's consolidated financial position and financial performance may be affected by the movements in the U.S. Dollar (US\$) to Philippine Peso exchange rates.

The following rates of exchange have been used by the Group in translating foreign currency consolidated statements of income and consolidated statements of financial position items as at and for the years ended December 31, 2022 and 2021:

| | 2022 | | 2021 | |
|-----------------------------------|---------------|---------------|---------|---------|
| | Closing | Average | Closing | Average |
| Philippine Peso to 1 unit of US\$ | ₱55.76 | ₱54.47 | ₱51.00 | ₱49.36 |

As at December 31, 2022 and 2021, the significant foreign currency-denominated financial assets of the Group are as follows:

| | 2022 | | 2021 | |
|---|-------------------|----------------------------|------------|----------------------------|
| | In US\$ | Philippine Peso Equivalent | In US\$ | Philippine Peso Equivalent |
| Cash and cash equivalents | US\$30,785 | ₱1,716,418 | US\$26,173 | ₱1,334,797 |
| Trade and other receivables | 639 | 35,627 | 165 | 8,415 |
| Investment securities - | | | | |
| Financial assets at: | | | | |
| FVOCI | 14,952 | 833,672 | 16,304 | 831,507 |
| Amortized cost | 575 | 32,082 | 13,450 | 685,950 |
| FVPL | - | - | 850 | 43,351 |
| Foreign currency-denominated financial assets | US\$46,951 | ₱2,617,799 | US\$56,942 | ₱2,904,020 |

A reasonably possible change of -1.29/+1.29 in 2022 and -2.98/+2.98 in 2021 in the US\$ to Philippine Peso exchange rate based on latest year-on-year movement in the currency, with all other variables held constant, shall result to the following income before tax movements in the Group's consolidated statements of income:

| | 2022 | | 2021 | |
|------|---------------------------------------|--|---------------------------------------|--|
| | Increase (Decrease) in Exchange Rates | Increase (Decrease) on Income before Tax | Increase (Decrease) in Exchange Rates | Increase (Decrease) on Income before Tax |
| US\$ | 4.76 (4.76) | ₱223,256 (223,256) | 2.98 (2.98) | ₱130,712 (130,712) |

Credit Risk

Credit risk is the risk that the Group will incur losses when its counterparties fail to discharge their contractual obligations.

Receivables are monitored on an on-going basis to minimize the Group's exposure to possible losses. The Group trades only with recognized, creditworthy third parties. It is Group policy to subject customers who trade on credit terms to credit verification procedures.

The credit risk for cash and cash equivalents and investment securities is considered negligible because the counterparties are reputable banks and investment institutions with high quality external credit ratings.

The gross maximum exposure of the Group to credit risk corresponds to the total gross amounts of the following financial assets:

| | Note | 2022 | 2021 |
|---|------|-------------------|-------------------|
| Cash and cash equivalents ^(a) | 5 | ₱2,847,219 | ₱2,142,192 |
| Investment securities - | 6 | | |
| Financial assets at: | | | |
| FVOCI | | 833,672 | 831,507 |
| Amortized cost | | 238,093 | 705,597 |
| FVPL | | – | 45,466 |
| Trade and other receivables | 7 | 162,694 | 134,300 |
| Rental and security deposits ^(b) | 22 | 5,119 | 3,592 |
| | | ₱4,086,797 | ₱3,862,654 |

^(a)Excluding cash on hand amounting to ₱50 and ₱65 as at December 31, 2022 and 2021, respectively.

^(b)Included under "Other noncurrent assets".

The analysis of the financial assets that were past due but not impaired follows:

| | 2022 | | | | Total | Impaired | Total |
|---|-------------------------------|---------------------------|---------------|-------------------|-------------------|-----------------|-------------------|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | | | |
| | | Less than 30 Days | 30 to 60 Days | More than 60 Days | | | |
| Cash and cash equivalents ^(a) | ₱2,847,219 | ₱– | ₱– | ₱– | ₱2,847,219 | ₱– | ₱2,847,219 |
| Investment securities - | | | | | | | |
| Financial assets at: | | | | | | | |
| FVOCI | 833,672 | – | – | – | 833,672 | – | 833,672 |
| Amortized cost | 238,093 | – | – | – | 238,093 | – | 238,093 |
| Trade and other receivables: | | | | | | | |
| Trade | 1,342 | – | – | – | 1,342 | 9,616 | 10,958 |
| Accrued interest | 38,021 | – | – | – | 38,021 | – | 38,021 |
| Due from related parties | – | – | – | 22,262 | 22,262 | 73,370 | 95,632 |
| Others | 399 | – | – | – | 399 | 17,684 | 18,083 |
| Rental and security deposits ^(b) | 5,119 | – | – | – | 5,119 | – | 5,119 |
| | ₱3,963,865 | ₱– | ₱– | ₱22,262 | ₱3,986,127 | ₱100,670 | ₱4,086,797 |

^(a)Excluding cash on hand amounting to ₱50.

^(b)Included under "Other noncurrent assets."

| | 2021 | | | | | | |
|---|-------------------------------------|---------------------------|------------------|----------------------|-------------------|----------------|-------------------|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | Total | Impaired | Total |
| | | Less than 30 Days | 30 to 60 Days | More than 60 Days | | | |
| Cash and cash equivalents ^(a) | ₱2,142,192 | ₱- | ₱- | ₱- | ₱2,142,192 | ₱- | ₱2,142,192 |
| Investment securities - | | | | | | | |
| Financial assets at: | | | | | | | |
| Amortized cost | 831,507 | - | - | - | 831,507 | - | 831,507 |
| FVOCI | 705,597 | - | - | - | 705,597 | - | 705,597 |
| FVPL | 45,466 | - | - | - | 45,466 | - | 45,466 |
| Trade and other receivables: | | | | | | | |
| Trade | 5,899 | - | - | - | 5,899 | 9,616 | 15,515 |
| Accrued interest | 9,782 | - | - | - | 9,782 | - | 9,782 |
| Due from related parties | - | - | - | 19,382 | 19,382 | 69,319 | 88,701 |
| Others | 2,366 | - | - | - | 2,366 | 17,684 | 20,050 |
| Rental and security deposits ^(b) | 3,592 | - | - | - | 3,592 | - | 3,592 |
| | ₱3,746,401 | ₱- | ₱- | ₱19,382 | ₱3,765,783 | ₱96,619 | ₱3,862,402 |

^(a)Excluding cash on hand amounting to ₱65.

^(b)Included under "Other current assets" and "Other noncurrent assets."

The table below shows the credit quality of the financial assets classified as neither past due nor impaired as at December 31, 2022 and 2021:

| | 2022 | | | 2021 | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | High Grade | Standard Grade | Total | High Grade | Standard Grade | Total |
| | | | | | | |
| Cash and cash equivalents ^(a) | ₱2,847,219 | ₱- | ₱2,847,219 | ₱2,142,192 | ₱- | ₱2,142,192 |
| Investment securities - | | | | | | |
| Financial assets at: | | | | | | |
| FVOCI | 833,672 | - | 833,672 | 831,507 | - | 831,507 |
| Amortized cost | 238,093 | - | 238,093 | 705,597 | - | 705,597 |
| FVPL | - | - | - | 45,466 | - | 45,466 |
| Trade and other receivables | - | 62,024 | 62,024 | 18,047 | - | 18,047 |
| Rental and security deposits ^(b) | - | 5,119 | 5,119 | - | 3,592 | 3,592 |
| | ₱3,918,984 | ₱67,143 | ₱3,986,127 | ₱3,742,809 | ₱3,592 | ₱3,746,401 |

^(a) Excluding cash on hand amounting to ₱50 and ₱65 as at December 31, 2022 and 2021, respectively.

^(b)Included under "Other current assets" and "Other noncurrent assets."

For trade receivables, the Group calculates impairment based on lifetime ECL using a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other financial assets at amortized cost, which comprise cash equivalents, investment securities, other receivables (including due from related parties) and rental and security deposits, ECL is based on 12-month ECL. However, the ECL for certain receivables, which are identified as credit-impaired, is based on lifetime ECL.

The credit quality of financial assets is managed by the Group using high grade and standard grade as internal credit ratings.

High Grade. Financial assets with high credit quality are normally collected within the credit period and without history of default collection.

Cash and cash equivalents and investment securities are placed in or deposited with reputable banks, thus, are fully realizable. The probability of default is close to zero and significant change in credit risk is unlikely for these financial instruments.

Standard Grade. Standard grade financial assets pertain mainly to receivables from counter parties that have a strong capacity to meet contractual obligations in the near term and have acceptable probability of default.

Past due receivables from related parties are not impaired when management assesses that these are fully realizable based on the counter parties' available assets.

Receivables from related parties are considered credit-impaired when the counter parties have no liquid assets and/or available assets to pay the outstanding receivables. Thus, these are provided with allowance for impairment losses.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk may arise primarily from mismatch of the maturities of financial assets and liabilities.

The Group's objective is to maintain continuity of funding. The Group's liquidity risk management policy is to measure and forecast its cash commitments, to match debt maturities with the assets being financed, to maintain a diversity of funding sources with its access to bank financing and the capital market and to hold a sufficient level of cash reserves.

The Group monitors its risk of shortage of funds by considering the maturity of both its financial assets and liabilities projected cash flows.

The table below summarizes the maturity profile of the Group's financial assets and liabilities (excluding statutory payables) used to manage liquidity based on contractual undiscounted payments.

| | 2022 | | | Total | 2021 | | | |
|--|-------------------|-----------------|------------------|-------------------|-------------------|-----------------|------------------|-------------------|
| | Upon Demand | Within One Year | Over One Year | | Upon Demand | Within One Year | Over One Year | Total |
| Financial Assets | | | | | | | | |
| Cash and cash equivalents | ₱2,847,219 | ₱- | ₱- | ₱2,847,219 | ₱2,142,192 | ₱- | ₱- | ₱2,142,192 |
| Investment securities - | | | | | | | | |
| Financial assets at: | | | | | | | | |
| Amortized cost | - | 833,672 | - | 833,672 | - | 705,597 | - | 705,597 |
| FVOCI | 238,093 | - | - | 238,093 | 831,507 | - | - | 831,507 |
| FVPL | - | - | - | - | 45,466 | - | - | 45,466 |
| Trade and other receivables | 62,024 | - | - | 62,024 | - | 18,047 | - | 18,047 |
| Rental and security deposits | - | - | 5,119 | 5,119 | - | - | 3,592 | 3,592 |
| Total undiscounted financial assets | ₱3,147,336 | ₱833,672 | ₱5,119 | ₱3,986,127 | 3,019,165 | 723,644 | 3,592 | 3,746,401 |
| Financial Liabilities | | | | | | | | |
| Trade payables | - | 2,105 | - | 2,105 | - | 1,899 | - | 1,899 |
| Accrued expenses | - | 8,922 | - | 8,922 | - | 9,960 | - | 9,960 |
| Dividends payable | 6,554 | - | - | 6,554 | 6,554 | - | - | 6,554 |
| Other current liabilities | - | 4,081 | - | 4,081 | - | 1,626 | - | 1,626 |
| Lease liabilities | - | 21,293 | 23,670 | 44,963 | - | 15,663 | 38,354 | 54,017 |
| Total undiscounted financial liabilities | 6,554 | 36,401 | 23,670 | 66,625 | 6,554 | 29,148 | 38,354 | 74,056 |
| Net undiscounted financial assets (liabilities) | ₱3,140,782 | ₱797,271 | (₱18,551) | ₱3,919,502 | ₱3,012,611 | ₱694,496 | (₱34,762) | ₱3,672,345 |

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group competes in an industry where opportunities for growth still abound. Projects are selected if their expected returns are higher than cost of capital. Funding is sourced from a combination of retained earnings, debt and new capital. The Group aims for flexibility in the capital structure to meet changing conditions and adapt with minimum cost and delay. It looks at solvency by keeping its debt capacity within its ability to generate future cash flows.

The Group is not subject to externally imposed capital requirements. The table below summarizes the equity components of the Group.

| | 2022 | 2021 |
|------------------------------------|--------------------|-------------|
| Capital stock | ₱1,148,535 | ₱1,148,535 |
| Additional paid-in capital | 451,364 | 451,364 |
| Parent shares held by a subsidiary | (1,149,886) | (1,149,886) |
| Other equity reserves | 617,388 | 431,288 |
| Retained earnings | 2,917,879 | 2,881,202 |
| | ₱3,985,280 | ₱3,762,503 |

Fair Values

The following is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are reflected in the consolidated financial statements:

| | 2022 | | 2021 | |
|------------------------------|-------------------|-------------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets | | | | |
| Cash and cash equivalents | ₱2,847,269 | ₱2,847,269 | ₱2,142,257 | ₱2,142,257 |
| Investment securities - | | | | |
| Financial assets at: | | | | |
| Amortized cost | 833,672 | 833,672 | 705,597 | 705,597 |
| FVOCI | 238,093 | 238,093 | 831,507 | 831,507 |
| FVPL | - | - | 45,466 | 45,466 |
| Trade and other receivables | 62,024 | 62,024 | 37,681 | 37,681 |
| Rental and security deposits | 5,119 | 5,119 | 3,592 | 3,592 |
| | ₱3,986,177 | ₱3,986,177 | ₱3,766,100 | ₱3,766,100 |
| Financial Liabilities | | | | |
| Trade and other payables*: | | | | |
| Trade | ₱2,105 | ₱2,105 | ₱1,899 | ₱1,899 |
| Accrued expenses | 8,922 | 8,922 | 9,960 | 9,960 |
| Dividends | 6,554 | 6,554 | 6,554 | 6,554 |
| Other current liabilities | 4,081 | 4,081 | 1,626 | 1,626 |
| Lease liabilities | 44,963 | 44,963 | 50,016 | 46,787 |
| Other noncurrent liabilities | - | - | 1,802 | 1,802 |
| | ₱66,625 | ₱66,625 | ₱71,857 | ₱68,628 |

*Excluding statutory payables amounting to ₱6,289 and ₱6,655 as at December 31, 2022 and 2021, respectively.

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

Cash and Cash Equivalents, Financial Assets at Amortized Cost, Trade and Other Receivables and Trade and Other Payables (excluding statutory payables). Due to the relatively short-term maturities of the financial assets and liabilities, the fair values approximate the carrying amounts at initial recognition.

Financial Assets at FVPL. The fair value of the Group's financial assets at FVPL is based on the net asset value as at end of the reporting period and is categorized as Level 2.

Financial Assets at FVOCI. The fair value of the Group's financial assets at FVOCI is estimated by reference to quoted bid price in an active market at the end of the reporting period and is categorized as Level 1.

Lease Liabilities. The fair value of lease liabilities was determined based on Level 2 in which the inputs are based on the discounted interest rate of the prevailing comparable instrument in the market.

Rental and Security Deposits and Other Noncurrent Liabilities. Fair values of security deposits are based on the present value of the expected future cash flows using discount rates ranging from 1.21% to 1.81%. These are categorized under Level 2 of the fair value measurements hierarchy for financial instruments.

For the years ended December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements.

**REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY SCHEDULES FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and the Board of Directors
Paxys, Inc.
15th Floor, 6750 Ayala Office Tower
Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Paxys, Inc. (the Parent Company) and Subsidiaries (the Group) as at December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020 and have issued our report thereon dated March 24, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedules for submission to the Securities and Exchange Commission (SEC) are the responsibility of the Group's management.

The supplementary schedules include the following:

- Schedules Required under Annex 68-E of the Revised Securities Regulation Code (SRC) Rule 68 as at and for the years ended December 31, 2022 and 2021
- Schedules Required under Annex 68-J of the Revised SRC Rule 68 as at and for the year ended December 31, 2022
- Reconciliation of the Parent Company Retained Earnings Available for Dividend Declaration for the year ended December 31, 2022
- Corporate Structure as at December 31, 2022

The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, is the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years ended December 31, 2022 and no material exceptions were noted.



The supplementary schedules are presented for purposes of complying with the Revised SRC Rule 68 issued by the SEC, and are not part of the basic consolidated financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

REYES TACANDONG & Co.


MICHELLE R. MENDOZA-CRUZ
Partner

CPA Certificate No. 97380

Tax Identification No. 201-892-183-000

BOA Accreditation No. 4782; Valid until April 13, 2024

SEC Accreditation No. 97380-SEC Group A

Issued April 8, 2021

Valid for Financial Periods 2020 to 2024

BIR Accreditation No. 08-005144-012-2023

Valid until January 24, 2026

PTR No. 9564565

Issued January 3, 2023, Makati City

March 24, 2023

Makati City, Metro Manila

PAXYS, INC. AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2022

Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 68

| | Page No. |
|--|----------|
| A Financial Assets | 1 |
| B Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties) | 2 |
| C Amounts Receivable from Related Parties which are Eliminated during the Consolidation of the Financial Statements | 3 |
| D Long-term Borrowings | * |
| E Indebtedness to Related Parties | * |
| F Guarantees of Securities of Other Issuers | * |
| G Capital Stock | 4 |

Other Required Information

| | |
|--|---|
| H Reconciliation of the Parent Company Retained Earnings Available for Dividend Declaration for the year ended December 31, 2022 | 5 |
| I Financial Soundness Indicators as at and for the years ended December 31, 2022 and 2021 | 6 |
| J Corporate Structure as at December 31, 2022 | 7 |

* *Not Applicable*

PAXYS, INC. AND SUBSIDIARIES

FINANCIAL ASSETS

DECEMBER 31, 2022

(Amounts in Thousands)

| Financial Asset/ Name of issuing entity | Number of Shares or Principal Amount of Bonds | Amount Shown in the Statement of Financial Position | Income Received and Accrued |
|--|---|--|-----------------------------------|
| Cash in Banks | | | |
| BDO Unibank, Inc. | | ₱10,849 | ₱3 |
| UBS Bank | | 8,768 | 101 |
| Bank Julius Baer | | 3,031 | – |
| Bank of the Philippine Islands | | 6,326 | 4 |
| J.P. Morgan Chase Bank | | 4,172 | 11 |
| Security Bank Corporation | | 430 | – |
| | | 33,576 | 119 |
| Cash Equivalents | | | |
| Bank of the Philippine Islands | | 609,369 | 6,754 |
| UBS Bank | | 1,448,287 | 25,881 |
| Bank Julius Baer | | 401,134 | 6,692 |
| J.P. Morgan Chase Bank | | 344,133 | 4,964 |
| Security Bank Corporation | | 9,701 | 141 |
| BDO Unibank, Inc. | | 1,019 | 22 |
| | | 2,813,643 | 44,454 |
| | | 2,847,219 | 44,573 |
| Financial Assets at Fair Value through Other Comprehensive Income | | | |
| Fixed Income Investments: | | | |
| J.P. Morgan Chase Bank | \$716 | 585,516 | 17,943 |
| Bank Julius Baer | 488 | 248,156 | 8,543 |
| | 1,204 | 833,672 | 26,486 |
| Financial Assets at Amortized Cost | | | |
| Bank of the Philippine Islands | ₱187,735 | 238,093 | 14,761 |
| UBS Bank | – | – | 947 |
| J.P. Morgan Chase Bank | – | – | 1,862 |
| | 187,735 | 238,093 | 17,570 |
| Trade and Other Receivables - Net | | | |
| Due from related parties | | 22,262 | – |
| Trade | | 1,342 | – |
| Accrued interest | | 38,022 | – |
| Others | | 398 | – |
| | | 62,024 | – |
| Rental and Security Deposits | | | |
| | | 5,119 | – |
| | | ₱3,986,127 | ₱88,629 |

SCHEDULE B

PAXYS, INC. AND SUBSIDIARIES
AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS
(OTHER THAN RELATED PARTIES)

DECEMBER 31, 2022
 (Amounts in Thousands)

| | Balance at Beginning of Year | Additions | Amounts Collected | Amounts Written-off | Current | Noncurrent | Balance at end of year |
|------------------------------------|---------------------------------|-----------|----------------------|------------------------|---------|------------|---------------------------|
| Advances to officers and employees | ₱1,851 | ₱839 | ₱593 | ₱- | ₱2,097 | - | ₱2,097 |

SCHEDULE C

PAXYS, INC. AND SUBSIDIARIES

AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE
ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

DECEMBER 31, 2022

(Amounts in Thousands)

| Related Parties | Balance at Beginning of Year | Additions* | Amounts Collected* | Current | Noncurrent | Balance at end of Year |
|--|------------------------------|---------------|--------------------|-----------------|------------|------------------------|
| Due from Related Parties | | | | | | |
| Paxys Global Services, Inc. | ₱66,773 | ₱405 | ₱- | ₱67,178 | ₱- | ₱67,178 |
| Scopeworks Asia, Inc. | 58,146 | 162 | 12,000 | 46,308 | - | 46,308 |
| Paxys Global Services Pte. Ltd | 34,985 | 3,746 | 3 | 38,728 | - | 38,728 |
| Paxys N.V. | 21,027 | 2,772 | 1,029 | 22,770 | - | 22,770 |
| Paxys Global Services Ltd. Regional Operating Headquarters | 13,937 | 1,392 | - | 15,329 | - | 15,329 |
| Paxys Ltd. | 12,433 | 284 | - | 12,717 | - | 12,717 |
| | ₱207,301 | ₱8,761 | ₱13,032 | ₱203,030 | ₱- | ₱203,030 |

*inclusive of foreign currency translation adjustments on dollar-denominated receivables

SCHEDULE G

PAXYS, INC. AND SUBSIDIARIES

CAPITAL STOCK

DECEMBER 31, 2022

| Title of issue | Number of shares authorized | Number of shares issued and outstanding as shown under related consolidated statement of financial position caption | Number of shares reserved for options, warrants, conversion, and other rights held by related parties | Directors and officers | Others |
|---|-----------------------------|---|---|------------------------|-------------|
| Common shares - "Class A" at \$1 par value | 1,800,000,000 | 1,148,534,866 | - | 217,800 | 171,850,551 |

PAXYS, INC. AND SUBSIDIARIES
RECONCILIATION OF PARENT COMPANY RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2022

| | |
|--|------------------------------|
| Deficit at Beginning of Year | (P260,152,233) |
| Net unrealized foreign exchange gain in 2021 | (5,838,031) |
| Deficit at Beginning of Year, as Adjusted | <u>(265,990,264)</u> |
| Net Loss Actually Realized during the Year | |
| Net loss closed to retained earnings | (33,031,058) |
| Unrealized foreign exchange gain in 2022 | (8,366,908) |
| Unrealized foreign exchange gain in 2021, realized in 2022 | 5,838,031 |
| | <u>(35,559,935)</u> |
| Deficit at End of Year | <u><u>(P301,550,199)</u></u> |

SCHEDULE I

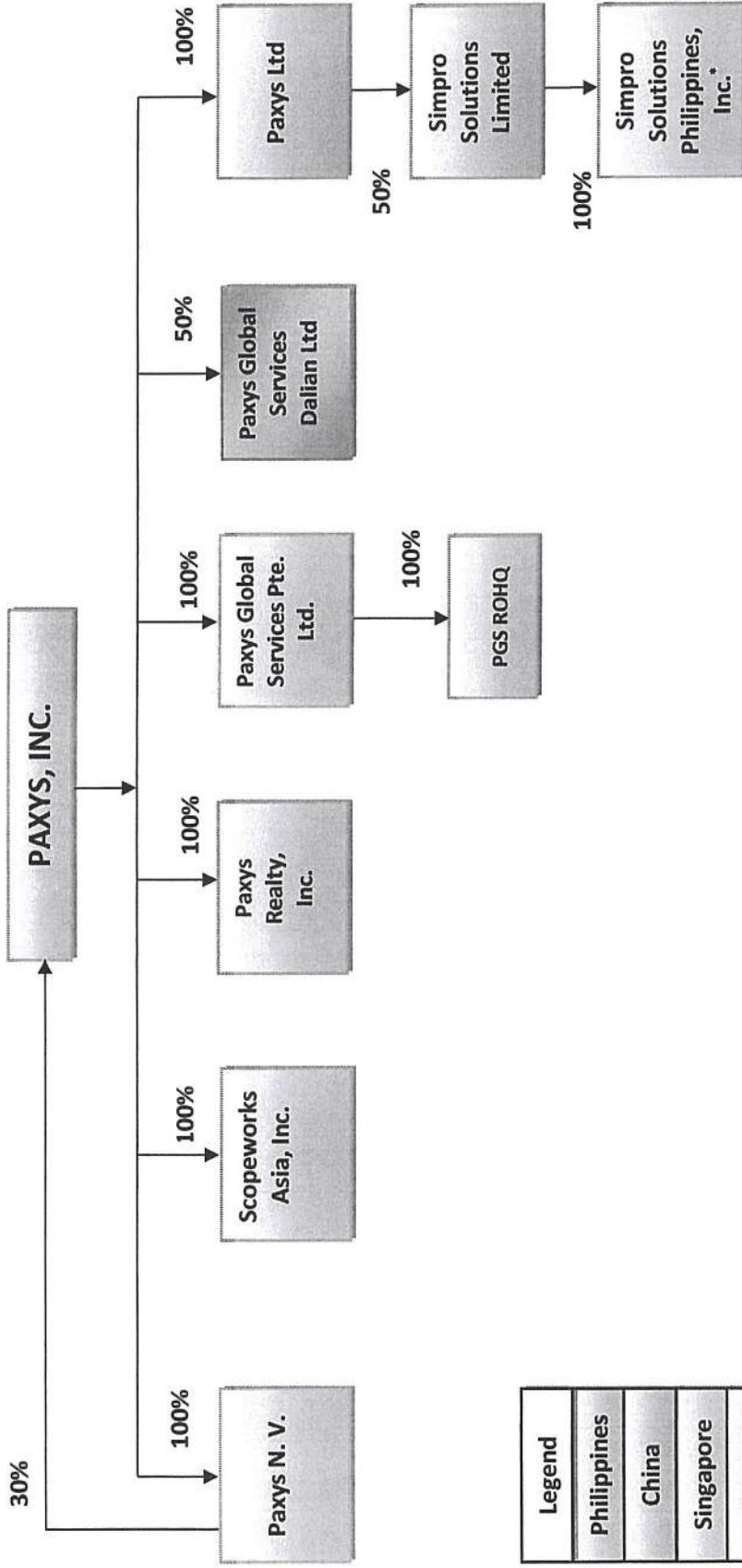
PAXYS, INC. AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2022 AND 2021

| Formula | | 2022 | 2021 |
|--|--------------------------------------|----------------|----------------|
| Liquidity ratio | | | |
| Current ratio | Total Current Assets | ₱4,012,367 | 81.27 |
| | Divide by: Total Current Liabilities | 49,373 | 93.13:1 |
| | Current ratio | <u>81.27</u> | |
| Solvency ratio | | | |
| Debt to equity ratio | Total Liabilities | ₱82,426 | 0.02: 1 |
| | Divide by: Total Equity | 3,985,280 | 0.02: 1 |
| | Debt to equity ratio | <u>0.02</u> | |
| Profitability ratio | | | |
| Return on equity | Net Income | ₱31,074 | 0.008% |
| | Divide by: Total Equity | 3,985,280 | (0.36%) |
| | Return on equity | <u>0.008%</u> | |
| Net income margin | Net Income | ₱31,074 | 106.99% |
| | Divide by: Revenue | 29,044 | (30.02%) |
| | Net income margin | <u>106.99%</u> | |
| Earnings before interest, tax, depreciation and amortization (EBITDA) margin | Net income before tax | ₱37,022 | 197.61% |
| | Add: Depreciation and amortization | 18,456 | 17.07% |
| | Interest expense | 1,917 | |
| | EBITDA | 57,395 | |
| | Divided by: Revenue | 29,044 | |
| | | <u>197.61%</u> | |

SCHEDULE J

PAXYS, INC. AND SUBSIDIARIES

CORPORATE STRUCTURE
AS AT DECEMBER 31, 2022



| |
|-------------|
| Legend |
| Philippines |
| China |
| Singapore |
| Curacao |
| Hong Kong |

*Currently under dissolution and liquidation. See Notes to Consolidated Financial Statements