

The background of the entire page is a light blue circuit board pattern. A large circular collage of various employee photos is arranged around the central text. The photos show groups of people in different settings: some in blue uniforms, some in business casual, some holding certificates, and some working on laptops. The collage is composed of several overlapping circular and rectangular segments.

CARD MRI

*Transformation with a Mission:
Achieving 5-8-40 and Beyond*

CARD MRI Information
Technology, Inc.

**2018 ANNUAL
REPORT**

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ABOUT THE COVER

As we continue to build CARD MRI up as a dynamic group of development-oriented institutions fit for the digital landscape, we must always recognize the very reason for us in undertaking this grand endeavor - our clients and members.

They are our inspiration, and their upliftment in life is our mission. We, as servants of social development, must always remind ourselves that our transformation has purpose.

Our cover aims to illustrate CARD MRI's dedication towards our digital transformation while still maintaining the essential human connection we have with our clients and stakeholder partners. The motif of the wheel symbolizes that CARD MRI is purposely designed to move forward with the aid of technology, while the inset photographs showcase not only our institutions' achievements but also meaningful moments with our clients and communities.

This is transformation with a mission.





CARD MRI is in the business of poverty eradication.

VISION

CARD MRI Information Technology, Inc. (CMIT) aims to be a world-class IT company empowering CARD Mutually Reinforcing Institutions in improving lives of the socially & economically-challenged people through technology solutions.

MISSION

CMIT is committed to continuously provide proactive technology innovations and services to the growing market demands while upholding CARD MRI core values and principles of competence, family spirit, integrity, simplicity, humility, excellence and stewardship.



Transcending to New Possibilities

Raul S. Dizon
Chairperson

As I look around and observe, I cannot help but smile as I witness the wonders technology has done to a yet simple way of day-to-day interactions and transactions. I am overwhelmed to see with my own eyes the transformation technology has provided us in almost every aspect of our lives. Technology positively changed the way we do our daily tasks—from communicating and learning to purchasing and earning, that encompasses the barriers of time and space.

The power of technology is what we at CMIT look forward to as this leads us to infinite possibilities being the front liner of the whole CARD MRI system in this technological landscape.

Our mandate to serve the CARD MRI system through technology upgrade remains anchored to our vision of poverty eradication in the Philippines. We continue to devote our time and resources to search for more ways to make all CARD institutions deliver the best services to our stakeholders amidst a crowded and saturated economic business landscape in the country.

As the whole CARD MRI welcomes the shift from our traditional manual operations to digitized daily transactions, CMIT pursues a more challenging battle of streamlining all the technological upgrades we implemented for each institution.

We at CMIT recognize the significance of having a robust centralized working system in order to provide a seamless digital flow of experience within and beyond the CARD MRI digital ecosystem. With the aim of ensuring efficiency and convenience to our clients, a consolidated system is on the way to incorporate digitization to CARD MRI's respective financial, insurance, and health services. Moreover, an integrated scheme ensures us of a safer and more secure system that our employees and management can use confidently.

We in CMIT also proactively worked on a system that would simplify and consolidate the enormous volume of data collected from all CARD MRI organizations in the last 30 years. Our data consolidation efforts, we hope, could help guide CARD MRI in making the best possible decision to uplift our

client's standard of living.

In line with this, CMIT has laid a contingency measure in place by backing up all our data for the preservation and continuity of our operations amidst global threats on cybersecurity.

Moving forward, as the current technological paradigm continues to evolve, CMIT has set its gears to take the necessary steps in creating powerful and practical tools that would yield optimum results for our institutions. We will ensure that CARD MRI will find ways to leverage innovative “multi-reinforcing” technologies - such as Big Data, social media, mobile,

and cloud - to build a customer-centric, information-driven, and integrated approach that will reinforce the organization's connection with our clients/members, communities, and the world of opportunities at large.

Challenges continue to rise as we ride on the digital euphoria. Despite the inevitability, we at CMIT see such challenges as opportunities for growth where we hope to transcend the 21 mutually reinforcing institutions to much greater breakthroughs in the future. As we enable and setup a technology ecosystem that will allow CARD MRI to be a beacon and anchor - an enabler of digital transformation at CARD MRI and beyond.



Raul S. Dizon





Edgar V. Cauyan
President and CEO

Securing the Advancement of the CARD MRI Ecosystem

As threats surround technology, CMIT devotes its time and energy to fortify security in the entire CARD MRI ecosystem while cultivating an innovative culture inside out.

The Core Banking System (CBS) of the CARD MRI Financial Institutions (FIs) trailblazed in 2017 with CARD Bank, Inc. as its early adopter. In one year span, we were able to successfully transcend 30 CARD Bank and three CARD MRI Rizal Bank, Inc. (CARD RBI) branches into the system making a centralized banking experience a reality to our client.

As part of our continuous battle of bringing convenience to our clients, we have also supported our FIs in the transitioning from traditional ATM cards to the EMV (Europay, MasterCard and Visa) chip-based cards. This type of card is the global standard of today's banking landscape, which would assure our clients of much safer and more efficient banking transactions. Some branches of CARD Bank and CARD SME Bank were able to adopt the EMV chip-based ATM cards.

A new delivery channel of digital withdrawal transactions, the Digital Cash Machine (DCM), has been introduced, too, to a pilot branch of CARD Bank, Inc. This innovation allows our clients to download a Quick Response (QR) Code via the konek2CARD app to skip

the lines of over-the-counter and ATM transactions. The konek2CARD app has new additional features and modules on top of the existing Mobile Banking System.

Moreover, CMIT brought in a number of system enhancements to different existing digital applications of CARD MRI. Such enhancements include CARD Mutual Benefit Association's (CARD MBA) Claims SMS (CMS) notification, claims status monitoring, members' contact number registration via SMS, and a new facility for their new product, ProtekPlan.

We have also done necessary enhancements in the CARD eSystem & eBanker, RDMAS, enhancements for PadaLIMA and PadaLIBRE, adjustments in our corporate website, e-mail activation link for Gabriel API, digitization of collection schemes, developments in eProcesses in the CARD MRI system as well as implementation of the CARD eSystem in CARD Myanmar Company Ltd..

We have also recognized the importance of a more efficient human resource in CARD MRI with the launching of the Human Capital Information System (HCIS) this year, which has automated necessary functions in the human resource department for faster operations.

All these became possible because of the management's continuous investment in education and

learning. For instance, the CMIT employees joined 20 local and certification training on technology updates this year. They also attended 12 international training in Indonesia, Singapore, Bangladesh, and the USA. Meanwhile, six received support in terms of formal schooling to advance their IT knowledge.

Building Fences of Security

They say that a protected ecosystem ensures the continuity and survival of its inhabitants. The same goes with CARD MRI as we strengthen our security measures to ensure our institutions' and clients' privacy.

This year, we have created the Web Application Firewall (WAF) that protects all of CARD MRI's web applications from known and unknown attacks and threats. The Centralized Security System, on the other hand, manages the physical security of our buildings and properties through rigorous monitoring of alarm events as well as CCTV installation and monitoring for CARD Bank, CARD SME Bank, and CARD RBI.

As we saw the risks of using third-party web applications in CARD MRI's day-to-day operations, we respond to the need of having a centralized system that would provide a safer digital experience to both the staff and the management. This is done through the Unified Collaboration, an exclusive system that integrates all

e-mails, instant messaging, tasks management, file sharing, collaborative document editing, and corporate social network all within the CARD MRI ecosystem.

This year, we have also successfully launched the Backup Management System that protects our database and operating systems through automated backup for the CBS and other CARD MRI Legacy Systems.

For more than 30 years, CARD MRI has served millions of Filipinos, and we can't deny the exponentially growing volume of data that we need to protect and organize. Through our Big Data and Analytics, our system can now simplify the clients' data so that the management can make sense of these, and render informed decisions for the maximum benefit of our clients.

The Digital Future of Banking

CARD MRI's push towards the integration of IT-enabled solutions necessitated the creation of like-minded institutions that will aid CMIT in leading at the forefront of digital transformation.

Fortress Data Services (FDS) Asya Philippines - an IT company wholly owned by FDS Asya Pte. Ltd. - was specifically created to bridge the gap by providing digital banking solutions in the most affordable cost



possible but of high quality standards. Since 2016, CMIT has been aided by FDS Asya in bringing the core banking systems to CARD Banking Group.

Together, CMIT and FDS Asya Philippines will continue to introduce IT-enabled solutions in order to cultivate higher levels of efficiency and effectiveness to the CARD MRI Group, and other rural banks and microfinance institutions.

What Lies Ahead?

The year 2018 was indeed a fruitful year for CMIT based on the number of successful system upgrades we implemented in the CARD MRI ecosystem. Moving forward, especially in 2019, CMIT is more than prepared to bring the whole CARD MRI to a new level of technological advancement that will enable it to serve its clients better.

Some of the projects in the pipeline include the full implementation of the CBS in all CARD Bank, CARD SME Bank, and CARD RBI branches. Mobile banking, DCS, and EMV will also be rolled out extensively in both CARD SME Bank and CARD RBI branches. Additionally, an upgraded Point-of-Sale (POS) system awaits for BotiCARD.

A new scheme in project implementation, the Cost-Benefit Analysis, will also be adopted. This system will enable us to identify whether or not a

project is beneficial to the institutions. Three projects have already undergone the analysis, namely: the end-to-end monitoring system, tape library for backup management, and database security and monitoring tool. These projects are concerned with pinpointing critical areas for improvement in the operations, protection of backup archives, and security enhancement of CARD MRI database.

Furthermore, CMIT looks forward to the implementation of the following technology upgrades for CARD MRI institutions: the new auditing tool and accounting system, a mobile clinic alongside the current health service system, a loan origination system for non-repetitive processes in our FIs, a service bus that acts as bridge among our FIs, an identity and access management to identify the rate of our staff's involvement in the unified collaboration, a security storage backup as well as deep discovery inspector to cater to other security needs of the institutions.

Indeed CMIT auspiciously responded to the technology challenges this year by implementing a handful of system changes for the benefit of CARD MRI and its clientele. The now data-driven and technologically efficient CARD MRI is our concrete answer as to how CMIT do its share in poverty eradication. In the years to come, we promise to intensify our efforts in maintaining the cyber integrity of the 21 institutions we pledged to protect.



Accomplishments

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Institutions
Served



102

Staff



24

Application
Solutions



30

Project
Engagements



Capacity Build-up

Business Development

100%

Technology Group

100%

Finance and Accounting

100%

Innovation and Architecture

100%

Corporate Governance
and Administration

100%

We are CMIT





Board of Directors





Mr. Raul S. Dizon
Chairperson



Ms. Deverna dT. Briones
Vice-Chairperson



**Atty. Anatalia F.
Buenaventura**
Corporate Secretary



Ms. Jocelyn D. Dequito
Director / Corporate
Treasurer



Mr. Edgar V. Cauyan
Director



Ms. May S. Dawat
Director



Mr. Julius Adrian R. Alip
Director



Mr. Roderick G. Mercado
Director



Mr. Floro P. San Juan
Independent Director



Dr. Emmanuel S. Santiago
Independent Director

Management Committee





Mr. Edgar V. Cauyan
President and CEO

Ms. Leyne G. De Galicia
Vice President for Corporate
Governance and Administration

Mr. Roderick G. Mercado
Vice President for Business
Development

Ms. Maria Encarnita L. Lopez
Vice President for Technical Services

Ms. Mary Grace A. Vergavera
Deputy Director for Finance

Mr. Alden P. Arban
Deputy Director for Data Center
Operations – OIC

Mr. Jigger M. Caneo
Chief Integration Architect

Mr. Melvin P. Guanzon
Chief Technology Officer

Mr. Alexzander B. Sanciango
Development and Testing Head - OIC

Mr. Arnel P. Mendoza
Continual Service Improvement Manager – OIC

Ms. Lorena Y. Reyna
Business Relationship Manager – OIC

Ms. Vasilyn R. Manalo
Lead Project Manager - OIC

Ms. Andrea P. Gumarin
Risk Officer

Ms. Sheina M. Ocsit
Compliance Officer – OIC

Mr. Arman B. Penafiel Jr.
Security Admin Head - OIC

Our Partners

8Layer Technologies, Inc. (Philippines)

Amihan Global Services (Philippines)

Astrid Technologies (Philippines)

Automated Technologies Inc. (Philippines)

Coreware Technologies Inc. (Philippines)

Fortress Data Services (Indonesia)

Giant Technology (Philippines)

Globe Telecom, Inc. (Philippines)

IBM Philippines, Inc. (Philippines)

Info-Tech Research Group (Canada)

Jump Solutions, Inc. (Philippines)

Keystone Solutions, Inc. (Philippines)

Microphase Corporation (Philippines)

Netsec Technologies, Inc. (Philippines)

Network Managers, Inc. (Philippines)

Nexus Technologies, Inc. (Philippines)

PGE's Professional Service Team (Philippines)

PLDT Inc. (Philippines)

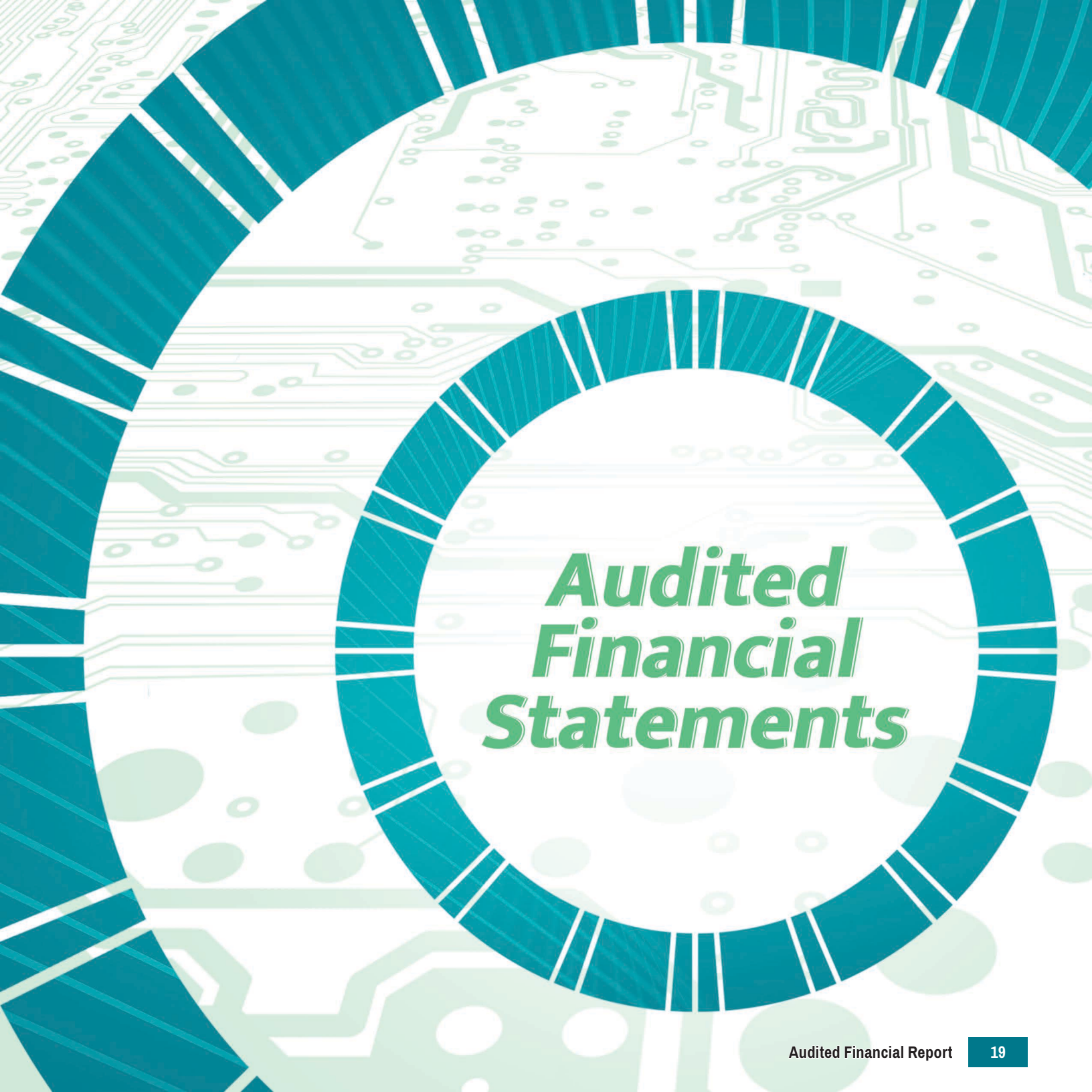
Quicksilver SatCom Ventures, Inc. (Philippines)

Radius Telecoms (Philippines)

Total Information Management Corporation (Philippines)

Universal Access and Systems Solutions, Inc. (Philippines)

We Are IT Phils, Inc (WIT) (Philippines)



Audited Financial Statements

CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31			
	2018	2017	2018	2017
ASSETS				
Current Assets				
Cash (Notes 6 and 22)	₱67,907,103	₱80,692,300	₱51,059,915	₱64,097,826
Short-term investments (Notes 7 and 22)	52,572,655	—	52,572,655	—
Receivables (Notes 8 and 22)	45,265,129	53,932,235	45,265,129	53,932,235
Other current assets (Note 9)	31,977,812	31,489,798	31,977,112	31,436,671
	197,722,699	166,114,333	180,874,811	149,466,732
Noncurrent Assets				
Investments in a subsidiary and an associate (Note 10)	31,728,479	13,025,254	66,616,605	62,913,986
Property and equipment (Note 11)	42,871,464	22,979,474	42,871,464	22,979,474
Software costs (Note 12)	18,886,920	14,825,880	18,886,920	14,825,880
Retirement asset (Note 18)	13,795,392	14,894,698	13,795,392	14,894,698
Other noncurrent assets (Note 7)	1,647,000	1,140,000	1,647,000	1,140,000
	108,929,255	66,865,306	143,817,381	116,754,038
TOTAL ASSETS	₱306,651,954	₱232,979,639	₱324,692,192	₱266,220,770
LIABILITIES AND EQUITY				
Liabilities				
Current Liabilities				
Trade and other payables (Note 13)	₱28,428,473	₱20,648,482	₱28,366,872	₱20,586,882
Loans payable (Notes 14 and 22)	595,495	1,022,659	595,495	1,022,659
Subscription payable (Note 22)	10,862,875	65,500	47,812,500	47,878,000
Income tax payable	7,617,466	2,856,392	7,617,466	2,856,392
	47,504,309	24,593,033	84,392,333	72,343,933
Noncurrent Liabilities				
Deferred tax liability (Note 21)	1,238,841	1,069,025	789,994	906,467
	1,238,841	1,069,025	789,994	906,467
	48,743,150	25,662,058	85,182,327	73,250,400
Equity				
Capital stock (Note 15)	192,565,750	99,533,900	192,565,750	99,533,900
Deposit for future stock subscription (Note 15)	—	48,625,151	—	48,625,151
Retained earnings	47,631,140	44,081,318	47,631,140	44,081,318
Remeasurement gain (loss) on retirement plan (Note 18)	(987,895)	520,117	(987,895)	520,117
Foreign currency translation adjustment (Note 10)	394,781	394,781	394,781	394,781
Share in other comprehensive loss of a subsidiary and an associate (Note 10)	(93,911)	(184,897)	(93,911)	(184,897)
	239,509,865	192,970,370	239,509,865	192,970,370
NON-CONTROLLING INTEREST	18,398,939	14,347,211	—	—
	257,908,804	207,317,581	239,509,865	192,970,370
TOTAL LIABILITIES AND EQUITY	₱306,651,954	₱232,979,639	₱324,692,192	₱266,220,770

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF INCOME

	Consolidated		Parent Company	
	Years Ended December 31			
	2018	2017	2018	2017
INCOME				
Service (Notes 16 and 22)	₱239,730,272	₱184,023,785	₱239,730,272	₱184,023,785
Interest (Notes 6, 7 and 22)	1,999,240	749,430	1,598,063	414,895
Dividends (Notes 7 and 22)	872,870	401,808	872,870	401,808
Miscellaneous	580,498	299,262	580,498	299,262
	243,182,880	185,474,285	242,781,703	185,139,750
COST OF INFORMATION TECHNOLOGY SERVICES				
(Notes 16 and 22)	137,011,916	110,544,237	137,011,916	110,544,237
GENERAL AND ADMINISTRATIVE EXPENSES				
Salaries, wages and other benefits (Notes 17, 18 and 22)	12,100,941	11,256,808	12,100,941	11,256,808
Management and other professional fees	6,504,305	4,673,614	6,442,705	4,600,414
Program, monitoring and evaluation	4,766,443	2,546,150	4,766,443	2,546,150
Information technology expense	3,994,723	4,803,125	3,994,723	4,803,125
Staff training and development	1,845,995	1,350,153	1,845,995	1,350,163
Travelling expenses	1,722,315	1,174,082	1,722,175	1,174,042
Fuel and lubricants	1,451,404	892,467	1,451,404	892,467
Taxes and licenses	1,118,067	83,833	1,113,565	78,995
Honorarium	535,111	1,120,944	535,111	1,120,944
Interest expense (Note 14)	12,028	1,173,255	12,028	1,173,255
Miscellaneous (Note 20)	8,751,282	9,038,494	8,696,870	8,319,185
	42,802,614	38,112,925	42,681,960	37,315,548
	179,814,530	148,657,162	179,693,876	147,859,785
INCOME BEFORE SHARE IN NET INCOME (LOSS) OF A SUBSIDIARY AND AN ASSOCIATE				
	63,368,350	36,817,123	63,087,827	37,279,965
SHARE IN NET INCOME (LOSS) OF:				
AN ASSOCIATE (Note 10)	7,544,848	1,373,794	—	—
A SUBSIDIARY (Note 10)	—	—	3,780,826	430,412
INCOME BEFORE INCOME TAX	70,913,198	38,190,917	66,868,653	37,710,377
PROVISION FOR INCOME TAX (Note 21)	19,683,150	11,116,779	19,602,915	11,049,782
NET INCOME	₱51,230,048	₱27,074,138	₱47,265,738	₱26,660,595
ATTRIBUTABLE TO:				
Parent Company	₱47,265,738	₱26,660,595	₱—	₱—
Non-controlling Interest	3,964,310	413,533	—	—
	₱51,230,048	₱27,074,128	₱—	₱—

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY

STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated		Parent Company	
	Years Ended December 31			
	2018	2017	2018	2017
NET INCOME	₱51,230,048	₱27,074,138	₱47,265,738	₱26,660,595
OTHER COMPREHENSIVE INCOME (LOSS)				
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:				
Change in remeasurement gain on retirement plan (Note 18)	(2,154,303)	(915,193)	(2,154,303)	(915,193)
Income tax effect	646,291	274,558	646,291	274,558
	(1,508,012)	(640,635)	(1,508,012)	(640,635)
Other comprehensive income may be reclassified to profit or loss in subsequent periods:				
Foreign currency translation adjustment	390,324	284,504	—	145,097
Income tax effect	(117,097)	(85,351)	—	(43,529)
	273,227	199,153	—	101,568
Share in the other comprehensive loss of a subsidiary and an associate (Note 10)	(94,823)	(215,746)	90,986	(110,030)
	(94,823)	(16,593)	90,986	(8,462)
	(1,329,608)	(657,228)	(1,417,026)	(649,097)
TOTAL COMPREHENSIVE INCOME	₱49,900,440	₱26,416,900	₱45,848,712	₱26,011,498
ATTRIBUTABLE TO:				
Parent Company	₱45,848,712	₱26,011,498	₱—	₱—
Non-controlling Interest	4,051,728	405,402	—	—
	₱49,900,440	₱26,416,900	₱—	₱—

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY

	Consolidated								Total
	Equity attributable to the equity holders of the Parent Company						Non-controlling interest		
	Capital stock (Note 15)	Deposit for future stock subscription (Note 15)	Retained earnings	Remeasurement gain (loss) on retirement plan (Note 18)	Share in other comprehensive loss of an associate (Note 10)	Foreign currency translation adjustment (Note 10)		Subtotal	
Balances at January 1, 2018	₱99,533,900	₱48,625,151	₱44,081,318	₱520,117	(₱184,897)	₱394,781	₱192,970,370	₱14,347,211	₱207,317,581
Effect of adoption of PFRS 15, <i>Revenue Contracts with Customers</i> (Note 2)	—	—	855,072	—	—	—	855,072	—	855,072
Balances at January 1, 2018, as restated	99,533,900	48,625,151	44,936,390	520,117	(184,897)	394,781	193,825,442	14,347,211	208,172,653
Issuance of capital stock (Note 15)	44,406,699	—	—	—	—	—	44,406,699	—	44,406,699
Increase in capitalization (Note 15)	48,625,151	(48,625,151)	—	—	—	—	—	—	—
Total comprehensive income (loss) for the year	—	—	47,265,738	(1,508,012)	90,986	—	45,848,712	4,051,728	49,900,440
Dividend declared during the year (Note 15)	—	—	(43,760,919)	—	—	—	(43,760,919)	—	(43,760,919)
Stock issuance cost (Note 15)	—	—	(810,069)	—	—	—	(810,069)	—	(810,069)
Balances at December 31, 2018	₱192,565,750	₱—	₱47,631,140	(₱987,895)	(₱93,911)	₱394,781	₱239,509,865	₱18,398,939	₱257,908,804
Balances at January 1, 2017	₱97,509,596	₱—	₱42,420,723	₱1,160,752	(₱74,867)	₱293,213	₱141,309,417	₱13,941,809	₱155,251,226
Issuance of capital stock (Note 15)	2,024,304	—	—	—	—	—	2,024,304	—	2,024,304
Proceeds from deposit for future stock	—	48,625,151	—	—	—	—	48,625,151	—	48,625,151
Total comprehensive income (loss) for the year	—	—	26,660,595	(640,635)	(110,030)	101,568	26,011,498	405,402	26,416,900
Dividend declared during the year (Note 15)	—	—	(25,000,000)	—	—	—	26,011,498	—	(25,000,000)
Balances at December 31, 2017	₱99,533,900	₱48,625,151	₱44,081,318	₱520,117	(₱184,897)	₱394,781	₱192,970,370	₱14,347,211	₱207,317,581

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF CHANGES IN EQUITY

	Parent Company						
	Capital stock (Note 15)	Deposit for future stock subscription (Note 15)	Retained Earnings	Remeasurement gain (loss) on retirement plan (Note 18)	Share in other comprehensive loss of a subsidiary and an associate (Note 10)	Foreign currency translation adjustment (Note 10)	Total
Balances at January 1, 2018	₱99,533,900	₱48,625,151	₱44,081,318	₱520,117	(₱184,897)	₱394,781	₱192,970,370
Effect of adoption of PFRS 15, <i>Revenue from Contracts with Customers</i> (Note 2)	—	—	855,072	—	—	—	855,072
Balances at January 1, 2018, as restated	99,533,900	48,625,151	44,936,390	520,117	(184,897)	394,781	193,825,442
Issuance of capital stock (Note 15)	44,406,699	—	—	—	—	—	44,406,699
Increase in capitalization (Note 15)	48,625,151	(48,625,151)	—	—	—	—	—
Total comprehensive income (loss) for the year	—	—	47,265,738	(1,508,012)	90,986	—	45,848,712
Dividend declared during the year (Note 15)	—	—	(43,760,919)	—	—	—	(43,760,919)
Stock issuance cost (Note 15)	—	—	(810,069)	—	—	—	(810,069)
Balances at December 31, 2018	₱192,565,750	₱—	₱47,631,140	(₱987,895)	(₱93,911)	₱394,781	₱239,509,865
Balances at January 1, 2017	₱97,509,596	₱—	₱42,420,723	₱1,160,752	(₱74,867)	₱293,213	₱141,309,417
Issuance of capital stock (Note 15)	2,024,304	—	—	—	—	—	2,024,304
Proceeds from deposit for future stock	—	48,625,151	—	—	—	—	48,625,151
Total comprehensive income for the year	—	—	26,660,595	(640,635)	(110,030)	101,568	26,011,498
Dividend declared during the year (Note 15)	—	—	(25,000,000)	—	—	—	(25,000,000)
Balances at December 31, 2017	₱99,533,900	₱48,625,151	₱44,081,318	₱520,117	(₱184,897)	₱394,781	₱192,970,370

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

	Consolidated		Parent Company	
	Years Ended December 31			
	2018	2017	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱70,913,198	₱38,190,907	₱66,868,653	₱37,710,377
Adjustments for:				
Depreciation and amortization (Note 11)	26,714,581	25,359,022	26,714,581	25,359,022
Retirement expense, net of contributions (Note 18)	(1,054,997)	(4,628,264)	(1,054,997)	(4,628,264)
Share in net loss of a subsidiary and an associate (Note 10)	(7,544,848)	(1,373,794)	(3,780,826)	(430,412)
Interest expense (Notes 14 and 22)	12,028	1,173,255	12,028	1,173,255
Interest income (Notes 6, 7 and 22)	(1,999,240)	(749,430)	(1,598,063)	(414,895)
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Receivables	8,667,106	981,852	8,667,106	(8,951,435)
Other current and non-current assets	(52,205,597)	(6,534,173)	(52,258,023)	(6,534,533)
Decrease in the amounts of:				
Trade and other payables	7,779,991	(1,800,847)	7,779,991	(1,812,447)
Net cash generated from operations	51,282,222	50,618,529	51,350,450	41,470,668
Income tax paid	(14,223,066)	(9,287,608)	(14,142,831)	(9,220,611)
Interest paid	(12,028)	(1,173,255)	(12,028)	(1,173,255)
Interest received	1,999,240	749,430	1,598,063	414,895
Net cash provided by operating activities	39,046,368	40,907,096	38,793,654	31,491,697
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Software (Notes 12 and 23)	(17,754,762)	(7,592,618)	(17,754,762)	(7,592,618)
Property and equipment (Notes 11 and 23)	(32,912,849)	(3,775,620)	(32,912,849)	(3,775,620)
Investment in a subsidiary and an associate (Notes 10 and 23)	(572,500)	(4,977,826)	(572,500)	–
Cash used in investing activities	(51,240,111)	(16,686,704)	(51,240,111)	(11,368,238)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Collection of deposit for future stock subscriptions (Note 15)	–	48,625,151	–	48,625,151
Issuance of shares of stocks (Note 15)	43,596,629	2,024,304	43,596,629	2,024,304
Dividends distribution (Note 15)	(43,760,919)	(25,000,000)	(43,760,919)	(25,000,000)
Settlement of loans (Note 14)	(427,164)	(2,042,407)	(427,164)	(2,042,407)
Net cash provided by (used in) financing activities	(591,454)	23,607,048	(591,454)	23,607,048
NET DECREASE IN CASH	(12,785,197)	48,168,079	(13,037,911)	43,730,507
CASH AT BEGINNING OF YEAR	80,692,300	32,524,221	64,097,826	20,367,319
CASH AT END OF YEAR (Note 6)	₱67,907,103	₱80,692,300	₱51,059,915	₱64,097,826

See accompanying Notes to Financial Statements.

CARD MRI INFORMATION TECHNOLOGY, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

1. Company Information

CARD MRI Information Technology, Inc. (the Parent Company) was registered with the Securities and Exchange Commission (SEC) on March 12, 2010 with life of 50 years and started commercial operations on May 2, 2010 primarily to provide major information technology (IT) services to Center for Agriculture and Rural Development - Mutually Reinforcing Institutions (CARD-MRI).

The Parent Company is leveraging internally-developed and externally-sourced solutions to create an integrated business environment to enable the continuous growth of CARD MRI's operation. As a major service offered to its sister institutions, software development has become the expertise of the Parent Company.

On October 9, 2015, the Board of Directors (BOD) approved the Parent Company's investment in CARD MRI Holdings, Inc. (CMHI). As an incorporator, the Parent Company holds 51.00% ownership interest over CMHI. CMHI's purpose is to acquire and hold investment shares of stocks, any bonds, debentures and securities, or obligations, created, negotiated or issued by any foreign or domestic corporation, association or other entity and to provide business support to its subsidiaries, affiliates and other related companies to continuously enhance service, compliance and productivity and core practices.

The Parent Company and its subsidiary (collectively referred to as "the Group") are members of CARD-MRI. The Group's principal place of business is at No. 35 P. Burgos St. corner M. Paulino St., San Pablo City, Laguna.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiary. The accompanying financial statements have been prepared on a historical cost basis except for available for sale investments (AFS) and financial assets at fair value through other comprehensive income (FVOCI). The financial statements are presented in Philippine peso (₱), which is the Group's functional currency, and all amounts are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The accompanying financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standard (PFRS).

On October 7, 2010, the SEC issued a notice to exempt entities from the mandatory adoption of PFRS for Small and Medium-sized Entities (SMEs) that meet certain criteria. The Group availed of the exemption on the basis that the balances of Parent Company are consolidated by an entity which is reporting under full PFRS.

Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented based on current and non-current classification.

Financial assets and financial liabilities are offset, and the net amount reported in the statements of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liability simultaneously.

The Group assesses that they have a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group and the Parent Company.

Basis of Consolidation and Investment in Subsidiary

The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All significant intra-group balances, transactions and income and expenses resulting from intra-group transactions are eliminated in full.

A subsidiary is consolidated from the date on which control is transferred to the Parent Company. The Group controls an investee if and only if the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group 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; and
- the Group's voting rights and potential voting rights.

The Group 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Group and to the non-controlling interests. When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;

- Derecognizes the related OCI recorded in equity and recycle the same to profit or loss or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes the remaining difference in profit or loss; and
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be recognized if the Group had directly disposed of the related assets or liabilities.

Non-Controlling Interest

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company. Non-controlling interest is presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non-controlling interest are allocated against the interests of the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations which became effective as of January 1, 2018. Except as otherwise indicated, these changes in the accounting policies did not have significant impact on the financial position or performance of the Group:

- *New and Amended Standards*
 - Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
 - Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
 - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- *Annual Improvements to PFRSs (2014 – 2017 Cycle)*
 - Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value*
 - Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

Standard that has been adopted and that is deemed to have significant impact on the financial statements or performance of the Group is described below:

- PFRS 9, *Financial Instruments*
- PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The hedge accounting requirements did not have significant impact on the Group's financial statements.

The Group has adopted PFRS 9 effective January 1, 2018 using the modified retrospective approach. The Group has not restated the comparative information, which continued to be reported under PAS 39. As of January 1, 2018, the Group has reviewed and assessed all of its existing financial instruments based on the requirements of PFRS 9 as discussed below:

(a) Classification and Measurement

Under PFRS 9, debt financial assets are classified and measured at FVPL, amortized cost (AC) or fair value through other comprehensive income (FVOCI). The classification is based on the Group's business model for managing the financial assets and whether the financial instruments' contractual cash flows represent "solely payments of principal and interests" or "SPPI" on the principal amount outstanding.

The assessment of the Group's business model was made as of January 1, 2018. The assessment of whether the instruments' contractual cash flows are SPPI was made based on the facts and circumstances as of the initial recognition of the financial assets.

The classification and measurement requirements of PFRS 9 did not have significant impact on the Company's financial statements. Cash, short-term investments, receivables and refundable deposits as at December 31, 2017 under PAS 39 are held to collect contractual cash flows and give rise to cash flows that are SPPI. Accordingly, these financial assets including contract receivables are continued to be carried at amortized cost, and are classified as "Financial Assets at Amortized Costs" starting January 1, 2018.

For unquoted equity securities classified as AFS under PAS 39, the Group irrevocably designated these as at FVOCI. For these unquoted equity securities, remeasurement to their fair values is not material to the financial statements.

The Group's financial liabilities which include accounts payable, accrued expenses (excluding statutory liabilities), subscriptions payable and loans payable remained to be classified at amortized costs upon transition. In addition, contract liabilities are classified at amortized costs upon transition.

(b) Impairment

The adoption of PFRS 9 has fundamentally changed the Group's measurement of impairment losses for its financial assets – from PAS 39's incurred loss approach to a forward-looking expected credit loss (ECL) approach. Under PFRS 9, the Group is required to provide ECL for debt financial assets at AC and FVOCI. The allowance is based on the ECLs associated with the risk of default in the next twelve months unless there has been a significant increase in credit risk (SICR) since origination or the financial assets are impaired where lifetime ECL is provided.

Upon the adoption of PFRS 9, the Group assessed that its cash, short-term investments and receivables are considered low credit risk financial assets that are mostly transacted with related parties as of January 1, 2018. Accordingly, the Group assessed that the impact of recognizing 12-month ECL for these financial assets is not significant.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customer. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The five- step model is as follows:

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

The standard requires the Parent Company to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Parent Company operates various information technology (IT) processes including development and maintenance of IT infrastructure and application systems. The revenue streams of the Parent Company are divided into three segments namely, (i) project management services, (ii) monthly fees and (iii) one-time services. Prior to adoption of PFRS 15, the revenue streams of the Parent Company resulted in the recognition of ‘Service Income’ in the statements of income. The new standard requires the Parent Company to identify the percentage of completion of each project based on the method used to measure the progress of each performance obligation. The service income from the revenue streams are recognized upon fulfillment of its obligation, i.e. upon delivery of deliverables based on project milestone.

The Parent Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Parent Company elected to apply the standard to all contracts that are not completed as at the date of initial application.

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 18.

The effect of adopting PFRS 15 as at January 1, 2018 was, as follows:

	Increase
Contract receivable	₱2,321,329
Contract liability	1,466,257
Retained earnings	855,072

The nature of the adjustments as at January 1, 2018 are described below:

- The Parent Company has determined that all contracts under PAS 18 still qualify as contracts under PFRS 15.

- b) No other performance obligations were identified other than the sale of services for each contract.
- c) Under the previous accounting, revenue arising from project management services was recognized under the percentage of completion method based upon the contract milestones and applying to the total revenue expected to be earned. Such percentage of completion accounting would typically result in higher levels of revenue recognized in the earlier stages of the contract.

Under PFRS 15, all elements of the contract are combined. Due to the application of the series guidance and output methodology within PFRS 15, these contracts now have revenue recognized in line with output measured on a per actual project milestone basis.

Significant Accounting Policies

Current versus Noncurrent Classification

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when it is:

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

All other liabilities are classified as noncurrent.

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

Cash

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

Short-term Investments

Short-term investments are temporary investments or marketable securities designed to provide a safe harbor for cash while it awaits future deployment into higher-returning opportunities. It includes time deposits with 91 to 109 days' term.

Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price between the bid-ask price spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the 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 every reporting date.

As at December 31, 2018 and 2017, none of the Group's financial instruments comprising of cash in bank, short-term investments, receivables, accounts payable, accrued expenses, subscriptions payable and loan payable is measured at fair value.

At report date, the carrying amount of these financial instruments as reflected in the statement of financial position and related notes, approximate their respective fair values due to their relatively short-term maturities.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date is the date on which the transaction is settled by delivery of the assets that are the subject of the agreement. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on

disposal on the day that it is delivered by the Group. Deposits, amounts due to banks and customers, and receivables are recognized when cash is received by the Group.

All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, initial measurement of financial instruments includes transaction costs.

'Day 1' difference

Where the transaction price 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 unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized 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 amount.

Initial recognition and classification of financial instruments (Policies applicable beginning January 1, 2018)

Financial assets are classified as either at fair value through profit or loss (FVPL), at fair value through comprehensive income (FVOCI) or at amortized cost. Financial liabilities are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of financial assets is based on the Group's business model for managing the financial assets, and whether the financial instruments' contractual cash flow represent 'solely payments of principal and interest' or SPPI on the principal amount outstanding.

Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

Business model assessment

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- The type, expected frequency and timing of reports which shall be presented to management to measure performance of financial instruments are also important aspects of the Group's assessment

The solely payments of principal and interest (SPPI) test

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

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrange are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial assets is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

As at December 31, 2018, the Group has no financial assets at FVPL.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions:

- (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and
- (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

This accounting policy mainly relates to the statement of financial position covers the following:

- a. Cash in bank
- b. Short-term investments
- c. Receivables
- d. Refundable deposits

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of comprehensive income. Gains and losses are recognized in statement of comprehensive income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of comprehensive income under 'Provision for credit losses'. The effects of revaluation on foreign currency-denominated investments are recognized in the statement of comprehensive income.

Equity instruments at FVOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI. Designation as at FVOCI is not permitted if the equity investment is held for trading.

Equity investments as at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in 'Net unrealized gain on financial assets at FVTOCI' in the statements of financial position. Where the asset is disposed of, the cumulative gain or loss previously recognized in 'Net unrealized gain on financial assets at FVOCI' is not reclassified to profit or loss but is reclassified to 'Retained Earnings. Equity instruments at FVTOCI are not subject to an impairment assessment.

As at December 31, 2018, the Group has irrevocable designation of equity instrument that is not held for trading as at FVOCI on initial application of PFRS 9.

Dividends earned on holding these equity instruments are recognized in the statement of income when the Group's right to receive the dividends is established in accordance with PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized under 'Dividend income' in the statement of income.

Reclassifications of financial instruments

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated.

Financial liabilities at amortized cost (policy applicable before and after January 1, 2018)

These are issued financial instruments or their components which are not designated as at FVPL and where 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 satisfy 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 shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR 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 EIR. This policy applies to accounts payable, other accrued expenses, subscriptions payable and loan payable of the Group.

As at December 31, 2018 and 2017, the Group has no financial liabilities at FVPL.

Initial recognition and measurement of financial instruments (Policies applicable prior to January 1, 2018)

All financial instruments are initially recognized at fair value plus transaction costs that are attributable to acquisition of financial assets, except for financial instruments at fair value through profit or loss (FVPL). The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and receivables while its financial liabilities are classified as financial liabilities at FVPL and at amortized cost. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

As of December 31, 2017, the Company has no financial assets and liabilities at FVPL, AFS investments and HTM investments.

Receivables

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

After initial measurement, receivables are subsequently measured at cost (or amortized cost using the effective interest method), as applicable, using the effective interest method, less any allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in 'Interest' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of income.

Available-for-sale financial assets

AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and government and corporate debt securities.

After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings and are reported as 'Net unrealized gains (losses) on AFS financial assets' under OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain - net' in the statement of income. Dividends earned on holding AFS equity instruments are recognized in the statement of income as 'Miscellaneous income' when the right to the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for impairment and credit losses' in the statement of income.

Impairment of Financial Assets

Policy applicable beginning January 1, 2018

Expected credit loss

The Group recognizes an allowance for ECLs for all financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. For trade receivables, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

As of December 31, 2018, the Group has assessed that the ECL attributable to its financial assets is insignificant to the financial statements.

Policy applicable prior to January 1, 2018

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Derecognition of Financial Instruments

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- 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 rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risk and rewards 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 form of a guarantee over the transferred asset is measured at the lower of carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial liabilities

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

Prepayments

Prepayments represent expenses not yet incurred but are already paid in cash. These are measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Investment in an Associate

An associate is an entity over which the Group has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The Group’s investment in an associate is accounted for using the equity method of accounting.

Under the equity method, an investment in an associate is initially recognized at cost. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized.

The statement of income reflects the Group’s share of the results of operations of the associate. Any change in other comprehensive income of the associate is presented as part of the Group’s other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and associate are eliminated to the extent of the interest in the associate.

When the Group's share of losses of in an associate equal or exceeds its interest in the associate, the Group does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate. Profit or losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

The financial statements of the associates are prepared for the same reporting period as the Group. The associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investment in a Subsidiary

In the Parent Company financial statements, investment in a subsidiary is accounted for under the equity method of accounting similar to the investment in an associate.

Property and Equipment

Property and equipment carried at cost less accumulated depreciation, and any impairment in value. The initial cost of property and equipment is comprised of purchase price and any directly attributable costs of preparing the asset for its intended use. Expenditures incurred after the items of property and equipment have been put into operation, such as repairs and maintenance, are charged against the statement of income. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of the asset.

Depreciation and amortization are computed using the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

Information technology equipment	2 to 5 years
Furniture, fixtures and equipment	2 to 3 years
Transportation equipment	3 years
Leasehold improvements	2 to 3 years or the lease term, whichever is shorter

The EUL and depreciation and amortization method are reviewed periodically to ensure that they are consistent with the expected pattern of economic benefits from items of property and equipment.

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

Software Costs

Software costs acquired separately are measured on initial recognition at cost. Following initial recognition, software costs are carried at cost less any accumulated amortization and accumulated impairment losses, if any.

Software costs are amortized over the useful economic life and assessed for impairment whenever there is an indication that the software cost may be impaired. The amortization period and method for a software cost with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on software costs is recognized in the statement of income in the expense category that is consistent with the function of the software costs.

If the entity acquires software costs by subcontracting other parties (e.g., development-and-supply contracts or research and development contracts), the entity must exercise judgment in determining whether it is acquiring an software cost or whether it is obtaining goods and services that are being used in the development of an software cost by the entity itself. In the latter case, the entity will only be able to recognize a software cost if the expenditures meet the criteria which confirm that the related activity is at a sufficiently advanced stage of development, which shall be both technically and commercially viable and includes only directly attributable costs.

Only expenditure arising from the development phase can be considered for capitalization, with all expenditure on research being recognized as an expense when it is incurred.

Software costs recognized as assets are amortized on a straight-line basis over the EUL of three (3) to five (5) years. The amortization period and method for a software cost with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Software costs under development are not amortized until available for use.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication of impairment of its nonfinancial assets (e.g. investments in a subsidiary and an associate, property and equipment and software costs). When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the Cash Generating Unit (CGU) to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount.

The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less costs to sell while value on use is the present value of the estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Parent Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Parent Company transfers goods or services to the customer, a contract liability is recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Parent Company performs under the contract.

Equity

Capital stock

Capital stock is measured at par value for all shares issued and outstanding. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable.

Retained earnings

Retained earnings represent all accumulated profits or losses of the Group and dividend distributions to stockholders and all other capital adjustments.

Dividends

Dividends are recognized as liability and deducted from the equity when approved by the BOD. Dividends for the year that are approved after the reporting date are dealt with as an event after reporting period.

Deposit for Future Stock Subscription

Deposit for future stock subscription (DFS) are treated as an equity account if all of the following conditions are present as at reporting date:

- the unissued authorized capital stock of the Company is insufficient to cover the amount of shares indicated in the contract;
- there is BOD approval on the proposed increase in authorized capital stock (for which a deposit was received by the Company);
- there is stockholders' approval of said proposed increase; and
- the application for the approval of the proposed increase has been filed with the SEC.

As at December 31, 2018, the Parent Company's DFS is classified as Capital Stock due to increase in capitalization which was approved by the SEC on April 13, 2018.

Foreign Currency Translations - Transactions and Balances

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Foreign currency-denominated monetary assets and liabilities are translated using the Philippine Dealing System (PDS) closing rate prevailing at the end of the year, and income and expenses are translated at PDS weighted average rates prevailing at transaction dates. Exchange differences arising from reporting foreign currency monetary items at rates different from those at which they were previously recorded, as well as foreign exchange gains or losses arising from foreign currency transactions are credited to or charged against the statement of income in the year on which the rates changed.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on translation are taken to the statement of comprehensive income under 'Foreign currency translation adjustment'. Upon actual disposal, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Revenue Recognition

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

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs.

Except for the recognition of revenues from the Parent Company's information technology business, the specific recognition criteria that must be met before revenue is recognized across the Group's revenue streams did not materially change from PAS 18.

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

Revenues within the scope of PFRS 15:

Service income

Service income is recognized when services are rendered. It is divided into the following revenue streams:

a. Project management services

Project management is the full management of IT projects or co-management of business projects involving technology resources, solutions or skillsets. This service shall cover varying scope and resource involvement as may be agreed within a project contract.

Under PFRS 15, when a performance obligation is satisfied over time, the Parent Company uses output method which based on contract milestones to measure progress for each performance obligation. The service income is recognized in reference to the stage of achievement of the project milestones.

b. Monthly fees

Monthly fees are also called as Software as a Service (SaaS) which is a provision of rights to a specific client to use a software which its license is on a subscription basis and Managed Services (i.e. outsourcing services) which are maintenance fees of services provided to the Parent Company's customers. The services are rendered throughout the period equally and monthly revenue is recognized.

c. One-time services

One-time services depend on the needs of the customers. This normally consists of technical repairs made for the customers. Outright revenue is recognized as each service is performed.

Revenues outside the scope of PFRS 15:

Interest income

Interest income on deposits in banks is recognized as interest accrues, taking into account the effective yield of the asset.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Miscellaneous income

Miscellaneous income is recognized when it is probable that the economic benefit will flow to the Group and amount can be measured reliably.

Cost and Expense Recognition

Cost and expense are recognized in the statement of income when it is probable that a decrease in future economic benefits related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Cost and expense in the statement of income are recognized:

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

Revenues and expenses that relate to same transaction or other event are recognized simultaneously.

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

Interest expense

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

Management and other professional fees and program, monitoring and evaluation

Management and other professional fees pertain to professional fees paid related to consultation for legal, accounting, and taxation matters. Program, monitoring and evaluation pertain to expenses related to area and project monitoring. These expenses arise from ordinary course of business and are recognized only when incurred.

Other expenses

Expenses encompasses losses as well as those that arise in the ordinary course of the business of the Group. Expenses are recognized when incurred.

Retirement Benefits

The Parent Company operates a defined benefit retirement plan and hybrid retirement plan which requires contributions to be made to a separately administered fund.

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

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

Retirement costs comprise the following:

- service cost;
- net interest on the net defined benefit liability or asset; and
- remeasurements of net defined benefit liability or asset.

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

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

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

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

defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Parent Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

Employee leave entitlement

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

Leases

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

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

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

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Any rental payments are accounted for on a straight-line basis over the lease term and included in 'Cost of information technology services' and 'Miscellaneous expenses' in the statement of income.

Income Taxes

Current tax

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

Deferred tax

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

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

Deferred tax assets or liabilities, however, are 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 transaction, and affects neither the accounting income nor taxable income.

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

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

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

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

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of VAT except:

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

The net amount of VAT recoverable from the tax authority is included as part of 'Other current assets' in the statement of financial position.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Events after the Reporting Period

Any post year-end events up to the date of approval of BOD that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the Group's financial statements. Post year-end events that are non-adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on the consolidated financial statements of the Group.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs 2015-2017 Cycle*

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in

profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. This new accounting standard is not applicable to the Group. .

Deferred effectivity

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

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

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

3. Significant Accounting Judgments and Estimates

The preparation of financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses, and disclosures relating to contingent assets and contingent liabilities at reporting date. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.

Judgements

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

a. Revenue recognition on sale of goods and services

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the (a) identification of the contract for sale of services that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; and (c) determining the timing of satisfaction of the services.

i. Existence of a contract

In case of project management services, the approved service agreements between the Group and the customers constitute a valid contract. Meanwhile, for SaaS and one-time services, the Group enters into a contract with customer through service orders which constitute a valid contract as specific details such as transaction price, contract terms and their respective obligations are clearly identified. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

ii. Identifying performance obligation

The Group identifies performance obligations by considering whether the promised services in the contract are distinct services. A service is distinct when the customer can benefit from the service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the service to the customer is separately identifiable from the other promises in the contract.

iii. Determining the timing of satisfaction of the services

The Group concluded that revenue for project management services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group. The Group uses output method in measuring progress of the project management services. The Group recognizes revenue on the basis of actual project milestone basis.

Estimates

a. Net plan assets and retirement expense

The determination of the Group's net plan assets and retirement expense are dependent on certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 18 to the financial statements and include, among others, discount and salary rates, future salary increase and average remaining working lives of employees. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

As at December 31, 2018 and 2017, the present value of the retirement obligation and fair values of retirement assets of the Group, including the details of the assumptions used in the calculation, are disclosed in Note 18.

b. *Recognition of deferred tax asset*

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Group reviews the carrying amount of deferred tax asset at each reporting date and reduces this to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Recognized and unrecognized deferred tax asset are disclosed in Note 21.

4. Fair Value Measurement

Cash, short-term investments, receivables, refundable deposits, financial liabilities at amortized cost

The fair value of 'Cash', 'Short-term investments', 'Receivables', refundable deposits classified under 'Other current assets' and financial liabilities at amortized cost approximate their carrying values due to their short-term maturities.

Financial assets at FVOCI

Unquoted equity securities are classified under 'Other noncurrent assets'. In 2017, these are carried at cost less allowance for impairment losses, if any, due to unavailability of reliable basis for fair value measurement. In 2018, remeasurement of such unquoted equity securities to their fair values is not material to the financial statements.

Loans payable

Fair value is estimated using discounted cash flow methodology using interpolated risk-free rates. Where the instrument reprices or has a relatively short-term maturity, the carrying amount approximates the fair value.

As at December 31, 2018 and 2017, the fair value of loans payable approximates its carrying value amounting to ₱0.60 million and ₱1.02 million due to the short-term maturity of this instrument.

5. Financial Risk Management Objectives and Policies

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

- Credit risk
- Liquidity risk
- Market risk

In line with the CARD MRI's mission of "*providing continued access to integrated microfinance and social development services to an expanding membership base by organizing and empowering women and their families*", risk management framework of the Group involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks. The subsidiary has their own risk management process but are structured similar to that of the Parent Company. To large extent, the respective risk management programs and objectives are the same across the Group. The gravity of the risks, the magnitude of the financial instruments involved, and regulatory requirements are primary considerations to the scope and extent of the risk management processes put in place for the subsidiary.

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

Credit Risk

The Group manages its credit risk by constantly monitoring its credit exposure to counterparties.

Maximum exposure to credit risk

The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the statements of financial position and related notes. The Group holds no collateral and other credit enhancements against its credit risk exposure as at December 31, 2018 and 2017.

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group's financial assets are concentrated to *financial intermediaries*.

Credit quality per class of financial assets

Applicable beginning January 1, 2018

The Group's cash in banks and short-term investments are neither past due nor impaired. These are with reputable financial institutions and related parties and are deemed to be standard grade. Standard grade is rated on entities that meet performance expectation, unlikely to be affected by external factors and have competent management that uses current business models.

The Group's receivables are considered standard grade since these are receivables from counterparties who are less likely to default in settling their obligations and are collectible within the next twelve months.

Accordingly, as these financial assets are considered to be standard grade, the ECL allowance of these financial assets is measured using 12-month ECL (Stage 1) which is considered insignificant as of December 31, 2018 and January 1, 2018.

Applicable prior to January 1, 2018

As at December 31, 2017, the Group's financial assets are neither past due nor impaired and are rated as standard grade by the Group.

Liquidity Risk

Liquidity risk is the risk arising from potential inability to meet obligations when they become due at a reasonable cost and timely manner. The Group manages liquidity risk by assessing the gap for additional funding and determining the best source and cost of funds on a monthly basis. To ensure sufficient liquidity, the Group sets aside funds to pay currently maturing obligations which are placed in credible banks. Monitoring of daily cash position is being done to guide the management in making sure that sufficient liquidity is maintained. The Treasury Committee of CARD MRI reviews monthly the liquidity position of the Group.

The tables below summarize the maturity profile of the financial instruments of the Group and the Parent Company based on contractual undiscounted cash flow as at December 31, 2018 and 2017:

2018	Consolidated					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash	₱47,371,734	₱–	₱20,672,169	₱–	₱–	₱68,043,903
Short-term investments	–	–	–	52,780,155	–	52,780,155
Receivables	45,536,588	–	–	–	–	45,536,588
Refundable deposit	–	–	–	10,496,333	–	10,496,333
Total financial assets	₱92,908,322	₱–	₱20,672,169	₱63,276,488	₱–	₱176,856,979
Financial Liabilities						
Trade and other payables	₱15,833,933	₱–	₱–	₱–	₱–	₱15,833,933
Subscriptions payable	10,862,875	–	–	–	–	10,862,875
Loans payable	–	151,633	303,266	151,619	–	606,518
Total financial liabilities	26,696,808	151,633	303,266	151,619	–	27,303,326
Net undiscounted cash flows	₱66,211,514	(₱147,234)	₱20,368,903	₱63,124,869	₱–	₱149,553,653

2018	Parent Company					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash	₱41,059,915	₱–	₱10,083,333	₱–	₱–	₱51,143,248
Short-term investments	–	–	–	52,780,155	–	52,780,155
Receivables	45,536,588	–	–	–	–	45,536,588
Refundable deposit	–	–	–	10,496,333	–	10,496,333
Total financial assets	86,596,503	–	10,083,333	63,276,488	–	159,956,324
Financial Liabilities						
Trade and other payables	₱15,772,332	₱–	₱–	₱–	₱–	₱15,772,332
Subscriptions payable	47,812,500	–	–	–	–	47,812,500
Loans payable	–	151,633	303,266	151,619	–	606,518
Total financial liabilities	63,584,832	151,633	303,266	151,619	–	64,191,350
Net undiscounted cash flows	₱23,011,671	(₱151,633)	₱9,780,067	₱63,124,869	₱–	₱95,764,974

2017	Consolidated					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash	₱29,137,217	₱10,107,453	₱41,785,481	₱–	₱–	₱81,030,151
Receivables	54,127,333	–	–	–	–	54,127,333
Total financial assets	83,264,550	10,107,453	41,785,481	–	–	135,157,484
Financial Liabilities						
Trade and other payables	16,399,073	–	–	–	–	16,399,073
Subscriptions payable	65,000	–	–	–	–	65,000
Loans payable	–	60,156	120,313	541,408	300,782	1,022,659
Total financial liabilities	16,464,073	60,156	120,313	541,408	300,782	17,486,732
Net undiscounted cash flows	₱66,800,477	₱10,047,297	₱41,665,168	(₱541,408)	(₱300,782)	₱117,670,752

2017	Parent Company					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash	P22,771,980	P10,107,453	P31,556,605	P–	P–	P64,436,038
Receivables	54,127,333	–	–	–	–	54,127,333
Total financial assets	76,899,313	10,107,453	31,556,605	–	–	118,563,371
Financial Liabilities						
Trade and other payables	16,337,473	–	–	–	–	16,337,473
Subscriptions payable	47,878,000	–	–	–	–	47,878,000
Loans payable	–	60,156	120,313	541,408	300,782	1,022,659
Total financial liabilities	64,215,473	60,156	120,313	541,408	300,782	65,238,132
Net undiscounted cash flows	P12,683,840	P10,047,297	P31,436,292	(P541,408)	(P300,782)	P53,325,239

Market Risk

Market risk is the risk of loss of future earnings, of fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes.

As at December 31, 2018 and 2017, the Group has no significant exposure to market risk.

6. Cash

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Cash on hand	P15,000	P15,000	P15,000	P15,000
Cash in banks	67,892,103	80,677,300	51,044,915	64,082,826
	P67,907,103	P80,692,300	P51,059,915	P64,097,826

Cash in banks consist of demand deposits, time deposits and a dollar account. The Group's demand deposits are used in its day-to-day operations and are non-interest bearing. Time deposits with affiliates' banks earn interest rates ranging from 0.10% to 4.00% and 2.00% to 4.00% in 2018 and 2017, respectively. The Group's dollar account earns interest of 0.25% in 2018 and 2017.

Interest income earned by the Group from cash in banks amounted to P0.44 million and P0.75 million in 2018 and 2017, respectively.

Interest income earned by the Parent Company from cash in banks amounted to P0.04 million and P0.41 million in 2018 and 2017, respectively.

7. Investment Securities

Short-term investments

Short-term investments represent time deposits with maturities of more than three months but less than one year. As at December 31, 2018, the short-term investments amounted to P52.57 million (Note 22).

Short-term investments earn annual interest ranging from 3.0% to 6.0% in 2018. Interest income from short-term investments by the Group and the Parent Company amounted to P1.56 million in 2018.

Financial Investment at Fair Value through Other Comprehensive Income

Other noncurrent asset pertains to unquoted equity securities at FVOCI which represents 3.29% ownership interest of the Parent Company in CARD MRI Insurance Agency (CAMIA) amounting to ₱1.65 million and ₱1.14 million in 2018 and 2017, respectively.

The Parent Company received dividends from CAMIA amounting to ₱0.87 million and ₱0.40 million, in 2018 and 2017, respectively.

8. Receivables

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Receivable from related parties (Note 22)	₱6,474,274	₱53,690,546	₱6,474,274	₱53,690,546
Contract receivables	4,455,969	—	4,455,969	—
Others	34,334,886	241,689	34,334,886	241,689
	₱45,265,129	₱53,932,235	₱45,265,129	₱53,932,235

Receivables amounting to ₱7.02 million from related parties pertain to billed fees related to IT services rendered by Parent Company.

Contract receivables are non-interest bearing and generally collectible within the next twelve months.

On June 16, 2017, the Company entered into deed of assignment with FDS Asya Phils. (FAPI) for the transfer of IT equipment and software related to a core banking system project amounting to ₱9.16 million and ₱84.00 million, respectively. The transfer resulted to net receivable from FAPI amounting ₱56.05 million. As of December 31, 2018, the Company has remaining receivable from FAPI amounting to ₱34.28 million relating to the transfer of assets which is non-interest bearing.

9. Other Assets

Other assets consist of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Financial assets				
Refundable deposits (Note 22)	₱10,496,333	₱10,387,156	₱10,496,333	₱10,387,156
Nonfinancial assets				
Prepaid expenses	12,167,142	9,659,256	12,167,142	9,606,829
Work-in-process	—	6,161,536	—	6,161,536
Input VAT	9,112,614	5,169,380	9,112,614	5,169,380
Stationery and supplies	201,723	112,470	201,023	111,770
	21,481,479	21,102,642	21,480,779	21,049,515
	₱31,977,812	₱31,489,798	₱31,977,112	₱31,436,671

Refundable deposits pertain to rental deposits on the Parent Company's leased office spaces, staff house, transportation vehicle and IT equipment.

Prepaid expenses pertain to unexpired subscriptions to software licenses and servers that are usable for one year and prepayments for insurance.

Work-in-process pertains to services already rendered for a particular IT software project but not yet billed to the buyers. As of December 31, 2018, there is no work-in-process recognized as the Company billed the customers pertaining to project management services at the same time the related cost and expenses are recognized.

10. Investments in a Subsidiary and an Associate

This account consists of the following investments:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Acquisition cost				
Subsidiary:				
CMHI - 51.00% owned			₱63,750,000	₱63,750,000
Associate:				
Fortress Data Services Pte. Ltd. (FAPL) - 23.97% indirect interest				
Balance at beginning of year	₱12,055,500	₱10,862,875	—	—
Additional investments	10,862,875	1,192,625	—	—
Balance at end of year	22,918,375	12,055,500	63,750,000	63,750,000
Accumulated equity in net earnings (losses)				
Balance at beginning of year	226,469	(1,147,325)	(1,215,090)	(1,645,502)
Share in net income of the subsidiary and associate for the year	7,544,848	1,373,794	3,780,826	430,412
	7,771,317	226,469	2,565,736	(1,215,090)
Accumulated equity in other comprehensive loss				
Balance at beginning of year	(362,545)	(146,799)	(184,897)	(74,867)
Share in other comprehensive loss of the subsidiary and associate for the year	(94,823)	(215,746)	90,986	(110,030)
	(457,368)	(362,545)	(93,911)	(184,897)
Effect of foreign currency Translation	1,496,155	1,105,830	394,781	563,973
	₱31,728,479	₱13,025,254	₱66,616,605	₱62,913,986

In 2016, the Parent Company, together with various investors, incorporated CMHI. As an incorporator, the Parent Company has 51.00% ownership and voting interest in CMHI, with initial investment of ₱63.75 million and subscription payable of ₱47.81 million. The Group accounts for the investment in CMHI as a controlled subsidiary under PFRS 10, *Consolidated Financial Statements*.

On June 6, 2016, CMHI contributed ₱10.86 million to incorporate FAPL. CMHI owns 47.00% voting interest in FAPL. As at December 31, 2018 and 2017, the Company has outstanding subscriptions payable to FAPL amounting to ₱10.86 million and nil, respectively.

FAPL is involved in development of other software and programming activities. Its primary place of business is 60 Albert Street, #14-01 OG Albert Complex, Singapore. FAPL's functional currency is US Dollars. The investment in FAPL is accounted for as an associate in accordance with PAS 28, *Investment in Associate and Joint Ventures*.

The following table presents the summarized consolidated financial information of the FAPL as at December 31, 2018 and 2017:

	2018	2017
Assets	₱183,605,853	₱113,915,336
Liabilities	116,021,274	86,202,030
Net assets	67,584,579	27,713,306

Summarized financial information in the consolidated statements of comprehensive income of FAPL follow:

	2018	2017
Revenue	₱103,208,932	₱44,382,500
Cost and expenses	(87,156,064)	(41,459,533)
Net income	16,052,868	2,922,967
Foreign currency translation adjustment	(201,751)	(459,034)
Total comprehensive income	15,851,117	2,463,933

11. Property and Equipment

The composition of and movements in property and equipment follow:

	2018				
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱54,546,369	₱5,778,801	₱983,153	₱4,449,744	₱65,758,067
Additions	27,337,613	710,541	—	4,864,695	32,912,849
Disposals	—	(65,267)	(983,153)	—	(1,048,420)
Balances at end of year	81,883,982	6,424,075	—	9,314,439	97,622,496
Accumulated Depreciation					
Balance at beginning of year	35,635,566	4,353,417	983,152	1,806,458	42,778,593
Depreciation and amortization	10,157,305	851,743	1	2,011,810	13,020,859
Disposals	—	(65,267)	(983,153)	—	(1,048,420)
Balance at end of year	45,792,871	5,139,893	—	3,818,268	54,751,032
Net book value at end of year	₱36,091,111	₱1,284,182	₱—	₱5,496,171	₱42,871,464

	2017				
	Information Technology Equipment	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱71,879,307	₱5,466,512	₱983,153	₱2,978,743	₱81,307,715
Additions	1,992,330	312,289	—	1,471,001	3,775,620
Disposals	(19,325,268)	—	—	—	(19,325,268)
Balances at end of year	54,546,369	5,778,801	983,153	4,449,744	65,758,067
Accumulated Depreciation					
Balance at beginning of year	29,810,573	3,390,248	983,152	554,126	34,738,099
Depreciation and amortization	5,824,993	963,753	—	1,252,332	8,041,078
Disposals	—	(584)	—	—	(584)
Balance at end of year	35,635,566	4,353,417	983,152	1,806,458	42,778,593
Net book value at end of year	₱18,910,803	₱1,425,384	₱1	₱2,643,286	₱22,979,474

Depreciation and amortization charged to the statements of income is presented under:

	2018	2017
Depreciation of property and equipment		
Cost of information technology services (Note 16)	₱11,822,067	₱7,538,661
General and administrative expenses (Note 20)	1,198,792	501,831
	13,020,859	8,040,492
Amortization of software costs (Note 11)		
Cost of information technology services (Note 16)	13,598,127	17,222,933
General and administrative expenses (Note 20)	95,595	95,595
	13,693,722	17,318,528
	₱26,714,581	₱25,359,020

Cost of fully depreciated assets still in use as at December 31, 2018 and 2017 amounted to ₱30.57 million and ₱30.12 million, respectively.

In 2018, additions include servers and hard disk back up for additional storage, furniture and fixtures used in the office and leasehold improvements.

In 2018, disposals include transportation vehicle and air conditioning units. There was insurance claim recognized by the Parent Company related to the disposal of transportation vehicle amounting to ₱0.51 million.

12. Software Costs

Breakdown of software costs:

	2018	2017
Cost		
Balance at beginning of year	₱56,661,450	₱122,444,779
Additions	17,754,762	7,592,618
Transfer of asset	—	(73,375,947)
Balance at end of year	74,416,212	56,661,450
Accumulated amortization		
Balance at beginning of year	41,835,570	24,517,042
Amortization (Note 11)	13,693,722	17,318,528
Balance at end of year	55,529,292	41,835,570
Net book value at end of year	₱18,886,920	₱14,825,880

In 2018, additions include Licenses (for light and basic users/medium users/power and heavy users) for Unified Collaboration amounting to ₱12.22 million, Huawei Commvault Back-up and Recovery Management amounting to ₱3.35 million and Email Collaboration and Implementation Services amounting to ₱1.00 million.

As of December 31, 2018, there are no software costs disposed and those which are not available for use and were not amortized.

13. Trade and Other Payables

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Financial liabilities				
Accounts payable	₱8,906,648	₱10,658,526	₱8,906,648	₱10,596,927
Accrued expenses	6,927,285	5,740,547	6,865,684	5,740,547
	15,833,933	16,399,073	15,772,332	16,337,474
Nonfinancial liabilities				
Contract liabilities	7,389,885	—	7,389,885	—
VAT payable	4,316,571	2,791,041	4,316,571	2,791,040
Withholding taxes payable	562,545	1,183,796	562,545	1,183,796
Statutory payable	325,539	274,572	325,539	274,572
	12,594,540	4,249,409	12,594,540	4,249,408
	₱28,428,473	₱20,648,482	₱28,366,872	₱20,586,882

Accounts payable consists of amounts due to suppliers.

Accrued expenses include unpaid operating expenses such as travelling expenses, management and professional fee, monetized vacation leave, 13th month pay and other benefits.

Contract liabilities pertain to deposits from customers upon contract execution and upon achievement of project milestones. These deposits are liquidated when revenue is recognized.

Statutory payable includes accrual of regulatory remittances to Social Security System, Philhealth and Pag-ibig.

14. Loans Payable

Loans payable pertains to borrowings that the Parent Company availed from and CARD Leasing and Finance Corporation in 2016 and which bears annual interest rates of 4.75%.

An analysis of the Parent Company's loans payable as at December 31, 2018 is presented as follows:

	2018	2017
Loans payable (Note 22)	₱595,495	₱1,022,659

As at December 31, 2018 and 2017, interest expense on loans payable amounted to ₱0.01 million and ₱1.17 million, respectively.

The changes in liabilities arising from financing activities are as follows:

	January 1, 2018	Cash flows, net	Non-cash change – settlement of loans from disposal of assets	December 31, 2018
Loans payable	₱1,022,659	(₱427,164)	₱—	₱595,495

15. Equity

Capital Stock

As at December 31, 2018 and 2017, the Parent Company's capital stock consists of:

	2018		2017	
	Shares	Amount	Shares	Amount
Common stock - ₱100 par value, 1,000,000 authorized shares				
Common stock at the beginning of the year	995,339	₱99,533,900	975,095	₱97,509,596
Issuance of shares of stocks	444,067	44,406,699	20,244	2,024,304
Reversal for deposit for future stock subscription	486,252	48,625,151	—	—
Common stock at the end of the year	1,925,658	192,565,750	995,339	99,533,900
Subscribed	74,342	7,434,250	4,661	466,100
Subscription receivable	—	(7,434,250)	—	(466,100)
	2,000,000	₱192,565,750	1,000,000	₱99,533,900

In 2018, the Parent Company issued shares of stocks amounted to ₱43.60 million, net of stock issuance costs of ₱0.81 million which was deducted from retained earnings as the Parent Company has no outstanding additional paid-in capital.

Dividends

On May 11, 2018, the Parent Company's BOD declared and approved cash dividends of ₱16.00 per share with a total amount of ₱32.00 million based on the audited financial statements and stockholders on record as of December 31, 2017. Cash dividends were fully paid in June 2018.

On September 14, 2018 and December 11, 2018, the Parent Company's BOD declared and approved cash dividends of ₱2.38 and ₱3.50 per share to common stockholders amounting to ₱4.76 million and ₱7.00 million which is fully paid in September and December 2018, respectively.

On December 16, 2017, the Parent Company's BOD declared and approved cash dividends of ₱25.00 per share to common stockholders amounting to ₱25.00 million. Cash dividends were fully paid in December 2017.

Deposit for Future Stock Subscriptions (DFS)

On June 9, 2017, the BOD and the stockholders approved and ratified the increase of the Parent Company's capitalization from ₱100.00 million to ₱500.00 million by increasing its authorized common stock.

In 2018, DFS amounting to ₱48.63 million was classified as equity as the application of the Company for the approval of the proposed increase has been filed with SEC and reclassified as part of capital stock for 2018.

On April 13, 2018, SEC has approved to increase the capital stock of the Parent Company from 1,000,000 shares to 5,000,000 shares with par value of ₱100.00 each which was approved by majority of the Board of Directors and by the vote of the stockholders owning or representing at least two-thirds of the outstanding capital stock at a meeting held on June 9, 2017.

Capital Management

The Group's capital management aims to ensure that it maintains strong credit ratings and healthy capital ratios in order to support and sustain its business growth towards maximizing the shareholders' value.

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

16. Service Income and Cost of Information Technology Services

Service income

In 2018, service income earned amounted to P217.00 million for software as a service, P22.37 million for project management service and P0.36 million for one-time services.

Cost of information technology services

This account consists of direct costs attributable to rendering IT services incurred by the Parent Company as follows:

	2018	2017
IT expenses (Note 22)	P51,291,834	P30,099,316
Depreciation (Note 11)	25,420,194	24,761,594
Salaries, wages and other benefits (Notes 17 and 22)	22,465,865	20,434,976
Postage, telephone, cables & telegrams	13,913,472	11,915,906
Rent (Note 19)	5,669,706	4,302,958
Staff training and development	3,996,195	2,725,246
Power, light and water	3,220,518	2,553,170
Program monitoring and evaluation	3,209,796	4,109,337
Management and professional fees	1,326,087	2,572,588
Others	6,498,249	7,069,146
	P137,011,916	P110,544,237

Others include travelling expense, fuel and lubricants, security and messengerial services, repairs and maintenance, supplies used, and other small-value expenses.

17. Salaries, Wages and Other Benefits

Salaries, wages and other benefits consist of:

	2018	2017
Salaries, wages and other benefits	P18,227,371	P18,007,976
Other short-term employee benefits	15,947,789	13,021,175
Retirement expense (Note 18)	391,646	662,633
	P34,566,806	P31,691,784

Salaries, wages and other benefits account is presented in the statements of income under the following:

	2018	2017
Cost of information technology services (Note 16)	₱22,465,865	₱20,434,976
General and administrative expense	12,100,941	11,256,808
	₱34,566,806	₱31,691,784

The Group uses specific identification to allocate salaries, wages and other benefits into ‘Cost of information technology services’ and ‘General and administrative expenses’.

18. Retirement Benefits

The Parent Company, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD-Business Development Service Foundation, Inc. (BDSFI), Inc., CARD Bank, Inc., CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), RBI, CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees’ Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP is valued using the projected unit cost method and is financed solely by the Bank and its related parties.

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

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

As at December 31, 2018 and 2017, total retirement expense related to Hybrid Plan amounted to ₱1.45 million and ₱5.29 million, respectively, and is presented under ‘Compensation and benefits’ in the statements of income.

The latest actuarial valuation report covers reporting period as at December 31, 2018.

Changes in the Parent Company's net defined benefit asset (liability) in 2018 and 2017 follow:

	Net benefit cost in statements of income*				2018					Contribution by employer	December 31
	January 1	Current service cost		Net interest	Subtotal	Transfers from plan	Remeasurements in other comprehensive income				
							Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in the effect of asset ceiling		
Fair value of plan assets	¥31,218,542	¥-	¥1,857,383	¥1,857,383	¥496,970	¥1,255,254	¥-	¥-	¥-	¥1,255,254	¥36,274,792
Presented defined benefit obligation	(9,076,622)	(1,307,143)	(523,721)	(1,830,864)	(496,970)	-	(3,179,256)	189,697	3,130,464	140,905	(11,263,551)
Asset ceiling	(7,247,222)	-	-	(418,165)	-	-	-	(3,550,462)	-	(3,550,462)	-
Net defined asset (liability)	¥14,894,698	¥1,307,143	¥915,497	¥3,916,640	¥-	¥1,255,254	¥(3,179,256)	¥(3,550,462)	¥(3,130,464)	¥(3,409,557)	¥13,795,392

* The net benefit cost is recorded under 'Salaries, wages and other benefits' in the statement of income.

[illegible]

* The net benefit cost is recorded under 'Salaries, wages and other benefits' in the statement of income.

In 2018 and 2017, transfers from the plan pertain to the transfer of employees from the Parent Company to other affiliates within CARD MRI Group.

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

	2018		2017	
	Amount	%	Amount	%
Debt securities – government securities	₱17,361,115	47.86%	₱ 15,849,654	50.77%
Cash and cash equivalents	16,113,263	44.42%	12,865,161	41.21%
Unquoted debt securities	798,045	2.20%	580,665	1.86%
Loans	–	0.00%	1,373,616	4.40%
Mutual funds	–	0.00%	146,727	0.47%
Other assets	2,002,369	5.52%	402,719	1.29%
Fair value of plan assets	₱36,274,792	100.00%	₱31,218,542	100.00%

All plan assets do not have quoted prices in active market except for government debt securities. Cash and cash equivalents are placed with reputable financial institutions and related parties and are deemed to be standard grade. Mutual fund, loans and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk other than those government debt securities which are considered low risk. The plan assets' cash and cash equivalents are held by affiliate banks.

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

The cost of defined retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plan as of December 31 are shown below:

	2018	2017
Discount rates	7.70%	5.77%
Future salary increases	5.00%	5.00%

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

	2018		2017	
	Increase (decrease) in basis points	Increase (decrease) in present value of obligation	Increase (decrease) in basis points	Increase (decrease) in present value of obligation
Discount rates	+1 -1	(₱1,242,681) 1,483,316	+1 -1	(₱1,422,909) 1,752,048
Future salary increases	+1 -1	1,509,376 (1,283,068)	+1 -1	1,635,677 (1,361,100)

The average duration of the DBO is 12.1 years as at December 31, 2018.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2018 and 2017:

	2018	2017
Less than 1 year	₱607,716	₱308,574
More than 1 year to 5 years	3,172,586	2,097,599
More than 5 years to 10 years	7,532,420	4,238,659
More than 10 years to 15 years	14,619,612	11,529,379
More than 15 years to 20 years	15,141,496	10,416,432
More than 20 years to 25 years	20,184,452	20,580,711
More than 25 years	54,126,339	62,824,443

19. Leases

The Parent Company leases its office premises for a period of one year to five years renewable upon mutual agreement between the Parent Company and lessors. The Parent Company's total lease expense in 2018 and 2017 amounting to ₱6.73 million and ₱5.45 million, respectively, is recorded under 'Cost of information technology services' and 'General and administrative expenses' in the statements of income.

	2018	2017
Rent		
Cost of information technology services (Note 16)	₱5,669,706	₱4,302,958
General and administrative expenses (Note 20)	1,058,014	1,150,651
	₱6,727,720	₱5,453,609

Future minimum rental lease payments on leases of the Parent Company Company are as follow:

	2018	2017
Within one year	₱4,728,280	₱4,786,299
Beyond one year but not beyond five years	18,913,120	19,145,196
	₱23,641,400	₱23,931,495

20. Miscellaneous Expenses

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Stationery and supplies used	₱1,869,208	₱1,256,081	₱1,869,208	₱1,255,595
Depreciation and amortization expense (Note 11)	1,294,387	597,426	1,294,387	597,426
Rent (Notes 19 and 22)	1,058,014	1,150,651	1,058,014	1,150,651
Seminars and meetings	772,092	1,006,056	772,092	1,006,056
Security, messengerial and janitorial services	694,264	644,351	694,264	644,351
Repairs and maintenance	688,570	401,651	688,570	401,651
Power, light and water	642,055	400,959	642,055	400,959
Penalties and other charges	434,083	19,000	434,083	19,000
Insurance expense (Note 22)	411,974	450,363	359,547	396,875
Representation and entertainment (Note 20)	258,431	468,189	258,431	468,189
Postage, telephone, cables and telegrams	166,337	635,339	166,337	634,579
Supervision and examination	68,187	83,434	68,187	83,434
Donations and charitable contributions (Note 22)	61,500	1,008,500	61,500	1,008,500
Bank service charges	30,628	48,282	30,628	26,376
Membership fees and dues	10,714	10,714	10,714	10,714
Unrealized foreign exchange loss	—	642,669	—	—
Others	290,839	214,829	288,853	214,829
	₱8,751,282	₱9,038,494	₱8,696,870	₱8,319,185

Others include reimbursements for medical expenses of employees, service fee for installation and delivery and petty cash expenses.

21. Income Taxes

Under Philippine tax laws, the Group is subject to income taxes and other taxes (presented under ‘Taxes and licenses’ in the statements of income).

The Group’s and Parent Company’s provision for income tax consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Current:				
Regular	₱18,584,293	₱10,054,263	₱18,584,293	₱10,054,263
Final	399,847	149,976	319,612	82,979
	18,984,140	10,204,239	18,903,905	10,137,242
Deferred	699,010	912,540	699,010	912,540
	₱19,683,150	₱11,116,779	₱19,602,915	₱11,049,782

Republic Act 9337, *An Act Amending National Internal Revenue Code*, provides that RCIT rate shall be 30.00%. Interest expense allowed as a deductible expense is reduced by 33.00% of interest income subjected to final tax.

In addition, effective September 1, 2002, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as a deductible expense is limited to the actual EAR paid or incurred (booked under 'Miscellaneous' in the statements of income) but not to exceed 1.00% of net revenue for companies engaged in the sale of services.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. Under current tax regulations, a corporation is subject to MCIT on the fourth taxable year immediately following the year in which the corporation commenced its business operations. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception. Current tax regulations further provide that the optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. For 2016, the Group elected to claim itemized expense deductions instead of OSD.

As at December 31, 2018, the Group did not recognize deferred tax asset on NOLCO amounting to ₱1.11 million, as it believes that it is highly probable that these temporary differences will not be realized in the foreseeable future by the subsidiary.

Components of the net deferred tax assets (liabilities) shown in the consolidated statements of financial position follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Deferred tax assets on:				
Unamortized past service cost	₱1,782,603	₱2,890,054	₱1,782,603	₱2,890,054
Accrued other expenses	563,446	715,417	563,446	715,417
Unearned	1,002,575	—	1,002,575	—
	3,348,624	3,605,471	3,348,624	3,605,471
Deferred tax liabilities on:				
Retirement asset	(4,138,618)	(4,468,409)	(4,138,618)	(4,468,409)
Foreign currency translation adjustment	(448,847)	(206,187)	—	(43,529)
	(4,587,465)	(4,674,596)	(4,138,618)	(4,511,939)
	(₱1,238,841)	(₱1,069,025)	(₱789,994)	(₱906,467)

Deferred income tax on remeasurements and foreign currency translation adjustment on retirement plan that was charged directly to OCI in 2018 and 2017 amounted to provision of nil and ₱0.19 million, respectively.

Reconciliation of the Group's and the Parent Company's statutory income tax to effective income tax follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Statutory income tax	₱21,273,959	₱11,457,272	₱20,060,596	₱11,313,113
Tax effects of:				
Non-taxable income	(3,319,959)	(532,681)	(2,190,753)	(249,666)
Interest income subject to final tax	(199,924)	(74,852)	(159,806)	(41,490)
Unrecognized deferred tax asset	36,196	239,216	—	—
Nondeductible expense	1,892,878	27,824	1,892,878	27,824
Effective income tax	₱19,683,150	₱11,116,779	₱19,602,915	₱11,049,782

22. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

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

The Company has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2005.

Remunerations of Directors and other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the board of directors and senior management to constitute key management personnel for purposes of PAS 24.

The compensation of key management personnel included under 'Cost of Information Technology Services' and 'General and Administrative Expenses' in the statements of income are as follows:

	2018	2017
Short-term employee benefits	₱7,434,792	₱4,441,260
Post-employment benefits	7,006,101	2,866,370
	₱14,440,893	₱7,307,630

Other related party transactions

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

Cash and cash equivalents, accounts payable and receivables

Cash and cash equivalents, accounts payable and receivables held by the Group and the Parent Company for key management personnel and affiliates as at December 31, 2018 and 2017 follow:

Category	2018 Consolidated		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Shareholder			
Staff training and development	₱680,605		Expenses incurred for staff development programs
Rent expense	236,908		Rentals for lease of office premises
Associate			
Subscription payable		₱10,862,875	Represents payable for share of stocks
Accounts receivable		34,278,032	This represents the remaining receivable from transfer of assets from FAPI
Charges to associate	-		
Collections	(10,000,000)		

Category	2018 Consolidated		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Other related party			
Cash in bank		50,748,647	These are time deposit accounts with less than 90 days term with annual interest rate ranging from 2.00% to 4.00%
Deposits	123,129,213		
Withdrawals	(132,096,275)		
Short-term investments		52,572,655	These are time deposit accounts with 90 days to 365 days term with annual interest rate ranging from 3.00% to 6.00%
Deposits	52,572,655		
Withdrawals	—		
Receivables		6,474,274	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	169,191,943		
Collections	(172,130,183)		
Refundable deposits		10,055,070	This pertains to rental deposits for office space and IT equipment leased out by the Parent Company
Other investment		1,647,000	Pertain to unquoted equity investment held at cost
Accounts payable		7,460	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	29,411,627		
Payments	(29,417,336)		
Loans payable		595,495	Payable to CARD MRI entities for loans granted to the Company for the acquisition of IT equipment
Settlement of loans	(427,164)		
Service income	239,730,269		Income earned from IT services provided by the Parent Company to other CARD MRI entities
Interest income	1,819,213		Income earned from time deposits to CARD MRI entities
Dividend income	872,870		Dividends received from equity investments held at cost
Insurance expense	586,524		Pertain to life insurance obtained by the Parent Company for its key personnel and regular employees
Rent expense	4,441,813		Rentals for lease of office premises
IT expense	23,032,033		This pertains to IT equipment leased out by the Parent Company included under 'Cost of information technology expenses'

Category	2018 Parent Company		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Shareholder			
Staff training and development	₱680,605		Expenses incurred for staff development programs
Rent expense	236,908		Rentals for lease of office premises
Subsidiary			
Subscription payable		₱47,812,500	Represents payable for share of stocks
Other related party			
Cash in bank		40,213,278	These are time deposit accounts with less than 90 days term with annual interest rate ranging from 2.00% to 4.00%
Deposits	122,759,624		
Withdrawals	(132,064,547)		
Short-term investments		52,572,655	These are time deposit accounts with 90 days to 365 days term with annual interest rate ranging from 2.00% to 4.00%
Deposits	52,572,655		
Withdrawals	—		
Receivables		6,474,274	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	169,191,943		
Collections	(172,130,183)		
Refundable deposits		10,055,070	This pertains to rental deposits for office space and IT equipment leased out by the Parent Company
Other investments		1,647,000	Pertain to unquoted equity investment held at cost
Accounts payable		7,460	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	29,411,627		
Payments	(29,417,336)		
Loans payable		595,495	Payable to CARD MRI entities for loans granted to the Company for the acquisition of IT equipment
Settlements	(427,164)		
Service income	239,730,269		Income earned from IT services provided by the Parent Company to other CARD MRI entities
Interest income	1,434,064		Income earned from time deposits to CARD MRI entities
Dividend income	872,870		Dividends received from equity investments held at cost
Insurance expense	586,524		Pertain to life insurance obtained by the Parent Company for its key personnel and regular employees
Rent expense	4,441,813		Rentals for lease of office premises
IT expense	23,032,033		This pertains to IT equipment leased out by the Parent Company included under 'Cost of information technology expenses'

2017 Consolidated			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Shareholder			
Staff training and development	P526,260		Expenses incurred for staff development programs
Rent expense	69,300		Rentals for lease of office premises
Associate			
Subscription payable		P65,500	Represents payable for share of stocks
Other related party			
Receivables		44,278,032	This represents the remaining receivable from transfer of Assets from FAPI
Charges to affiliates	54,278,032		
Collections	(10,000,000)		
Cash in bank		59,715,709	These are time deposit accounts with annual interest rate ranging from 2.00% to 4.00%
Deposits	60,931,599		
Withdrawals	(7,300,018)		
Receivables		9,412,514	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	216,438,773		
Collections	(206,985,388)		
Refundable deposits		10,102,156	This pertains to rental deposits for office space and IT equipment leased out by the Parent Company
Other investments		1,140,000	Pertain to unquoted equity investment held at cost
Accounts payable		7,460	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	1,281,437		
Payments	(1,268,268)		
Loans payable		1,022,659	Payable to CARD MRI entities for loans granted to the Company for the acquisition of IT equipment
Settlement of loans	(50,556,886)		
Service income	184,023,785		Income earned from IT services provided by the company to other CARD MRI entities
Interest income	995,692		Income earned from time deposits to CARD MRI entities
Dividend income	401,808		Dividends received from equity investments held at cost
Donations and charitable contributions	1,000,000		Pertain to the Parent Company's donation with CMDI
Rent expense	937,247		Rentals for lease of office premises
Insurance expense	64,367		
IT expense	19,929,425		This pertains to IT equipment leased out by the Parent Company included in 'Cost of information technology services'

2017 Parent Company			
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Shareholder			
Staff training and development	P526,260		Expenses incurred for staff development programs
Rent expense	69,300		Rentals for lease of office premises
Subsidiary			
Subscription payable		P47,878,000	Represents payable for share of stocks
Other related party			
Cash in bank		49,518,201	These are time deposit accounts with annual interest rate ranging from 2.00% to 4.00%
Deposits	50,734,091		
Withdrawals	(7,300,018)		
Receivables		53,690,546	Billings of service fee and other charges by the Company to other CARD MRI entities
Charges to affiliates	260,716,805		
Collections	(207,052,151)		
Refundable deposits		10,102,156	This pertains to rental deposits for office space and IT equipment leased out by the Parent Company
Other investments		1,140,000	Pertain to unquoted equity investment held at cost
Accounts payable		13,169	Rentals for lease of office premises, seminar and training fees and share of various expenses
Charges from affiliates	1,281,437		
Payments	(1,268,268)		
Loans payable		1,022,659	Payable to CARD MRI entities for loans granted to the Company for the acquisition of IT equipment
Settlements	(50,556,886)		
Service income	184,023,785		Income earned from IT services provided by the company to other CARD MRI entities
Interest income	696,018		Income earned from time deposits to CARD MRI entities
Dividend income	401,808		Dividends received from equity investments held at cost
Donations and charitable contributions	1,000,000		Pertain to the Parent Company's donation with CMDI
Insurance expense	64,367		Pertain to life insurance obtained by the Parent Company for its key personnel and regular employees
Rent expense	937,247		Rentals for lease of office premises
IT expense	19,929,425		This pertains to IT equipment leased out by the Parent Company

In June 2017, the Company entered into a deed of assignment with FAPI to transfer specific assets amounting to ₱93.64 million in exchange for FAPI's assumption of loans payable amounting to ₱48.51 million (Note 14) and cash consideration of ₱56.05 million.

As at December 31, 2018 and 2017, the Parent Company received the first and second installment of the cash consideration amounting to ₱10.00 million and ₱10.00 million, respectively, while the remaining amount is recognized in 'Receivables' (Note 8).

As at December 31, 2018, the Group has no outstanding receivable from FAPL.

23. Supplemental Disclosure of Non-cash Activities

The following are the activities of the Group and the Parent Company that affect recognized assets and liabilities but do not result in cash payments in 2018 and 2017.

	Consolidated		Parent Company	
	2018	2017	2018	2017
Investing activities				
Disposals of:				
Intangible assets on account	₱—	₱73,375,947	₱—	₱73,375,947
Software costs on account	—	19,325,268	—	19,325,268
Other assets on account	—	663,265	—	663,265
Extinguishment of loans payable through deduction of receivables	—	48,514,479	—	48,514,479
Unpaid subscriptions to:				
Shares of a subsidiary	—	—	47,812,500	47,812,500
Shares of an associate	10,862,875	65,500	—	—

In 2018 and 2017 creditable withholding taxes amounting to ₱1.55 million and ₱1.16 million, respectively, were applied against the Company's income tax liability.

24. Approval of the Release of the Financial Statements

The accompanying consolidated and parent company financial statements were approved and authorized for issue by the Parent Company's BOD on April 9, 2019.

25. Supplementary Information under Revenue Regulations (RR) No. 15-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the details of 'Taxes and licenses' paid or accrued by the Parent Company in 2018.

Documentary stamp tax	₱1,012,520
Business permits and licenses	91,537
Annual registration	8,808
Community tax certificate	700
	<u>₱1,113,565</u>

The following withholding taxes remitted in 2018 or outstanding as of December 31, 2018:

	Total Remittances	Balance as at December 31, 2018
Expanded withholding taxes	₱3,844,548	₱473,085
Withholding tax on compensation and benefits	560,547	—
Final withholding taxes	551,262	89,460
	<u>₱4,956,357</u>	<u>₱562,545</u>

VAT

The National Internal Revenue Code of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Parent Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. VAT rate is 12.00% effective February 1, 2006.

Details of the Parent Company's net sales/receipts output VAT and input VAT accounts in 2018 are as follow:

- a. Net sales/receipts and output VAT declared in the Parent Company's VAT returns filed in 2018:

	Net Sales/Receipts	Output VAT
Taxable sales:		
Service income	₱240,177,342	₱29,222,311

The output VAT declared in the Parent Company's VAT returns includes output VAT from unearned service income amounting to ₱0.45 million.

- b. Input VAT

Balance at beginning of period	₱5,169,380
Current year's domestic purchases/payments	14,861,788
Input tax used	(10,918,554)
Balance at end of period	<u>₱9,112,614</u>

Tax Assessment

In June 2018, the Company received a Letter of Authority (LOA) from BIR for the year ended 2017 to examine their books of accounts and other accounting records for all internal revenue taxes. The Company settled the deficiency tax assessment in December 2018.

As at December 31, 2018, there are no outstanding tax assessments and tax cases under investigations, litigations nor prosecution in courts or bodies outside the BIR.



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