

**CARD MRI Information
Technology, Inc.**

Parent Company Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
CARD MRI Information Technology, Inc.

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of CARD MRI Information Technology, Inc. (the Company), which comprise the parent company statements of financial position as at December 31, 2020 and 2019, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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



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

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 24 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of CARD MRI Information Technology, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos Jr.

Miguel U. Ballelos, Jr.

Partner

CPA Certificate No. 109950

SEC Accreditation No. 1566-AR-1 (Group A),

April 3, 2019, valid until April 2, 2022

Tax Identification No. 241-031-088

BIR Accreditation No. 08-001998-114-2019,

January 28, 2019, valid until January 27, 2022

PTR No. 8534220, January 4, 2021, Makati City

March 22, 2021



CARD MRI INFORMATION TECHNOLOGY, INC.
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱150,334,814	₱94,472,845
Short-term investments (Note 7)	87,088,104	85,233,091
Receivables (Notes 8 and 21)	29,808,965	24,838,849
Contract assets (Note 15)	4,454,140	4,020,921
Other current assets (Note 9)	25,793,391	29,263,724
	297,479,414	237,829,430
Noncurrent Assets		
Investments in a subsidiary and an associate (Note 10)	73,141,480	74,225,324
Property and equipment (Note 11)	45,218,080	61,449,108
Software costs (Note 12)	18,196,038	12,346,093
Retirement asset (Note 17)	16,214,842	13,038,427
Deferred tax asset (Note 20)	1,226,228	—
Other noncurrent assets (Note 9)	28,177,754	4,997,314
	182,174,422	166,056,266
TOTAL ASSETS	₱479,653,836	₱403,885,696
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Trade and other payables (Note 13)	₱16,090,189	₱46,490,263
Contract liabilities (Note 15)	12,317,191	261,869
Subscription payable (Note 21)	47,812,500	47,812,500
Income tax payable	4,496,447	8,907,985
	80,716,327	103,472,617
Noncurrent Liabilities		
Deferred tax liability (Note 20)	—	1,730,692
	80,716,327	105,203,309
Equity		
Capital stock (Note 14)	301,948,100	212,149,000
Retained earnings	91,770,704	83,957,623
Remeasurement gain (loss) on retirement plan	2,421,575	(211,265)
Share in other comprehensive income of a subsidiary and an associate (Note 10)	2,269,053	372,559
Net unrealized gain on fair value changes in investment at FVOCI (Note 9)	528,077	2,414,470
	398,937,509	298,682,387
TOTAL LIABILITIES AND EQUITY	₱479,653,836	₱403,885,696

See accompanying Notes to Parent Company Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31	
	2020	2019
INCOME		
Service (Notes 15)	₱281,743,782	₱280,931,707
Interest (Notes 6, 7, 8, and 21)	3,693,870	4,682,679
Dividends (Note 9)	1,971,500	823,500
Miscellaneous	52,554	28,908
	287,461,706	286,466,794
COST OF SERVICES (Note 15)	124,285,512	132,250,688
GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries, wages and other benefits (Notes 16 and 21)	12,752,953	10,732,468
Program, monitoring and evaluation	4,310,363	3,928,098
Power, light and water	3,658,103	2,651,685
Staff training and development	2,486,217	3,076,361
Management and other professional fees	2,178,016	6,903,669
Information technology expense	2,142,751	4,042,869
Travelling expenses	1,766,268	2,474,325
Depreciation and amortization	1,583,229	2,015,700
Security, clerical, messengerial and janitorial services	1,388,908	869,261
Stationery and supplies used	1,096,431	2,010,802
Rent (Note 18)	841,740	139,449
Taxes and licenses	415,288	173,532
Fuel and lubricants	344,673	1,101,672
Seminars and meetings	234,634	1,352,262
Representation and entertainment	167,830	975,795
Miscellaneous (Note 19)	2,722,880	2,932,034
	38,090,284	45,379,982
	162,375,796	177,630,670
INCOME BEFORE SHARE IN NET INCOME OF A SUBSIDIARY AND AN ASSOCIATE	125,085,910	108,836,124
SHARE IN NET INCOME OF A SUBSIDIARY AND AN ASSOCIATE (Note 10)	2,497,770	1,902,669
INCOME BEFORE INCOME TAX	127,583,680	110,738,793
PROVISION FOR INCOME TAX (Note 20)	36,470,266	31,914,598
NET INCOME	₱91,113,414	₱78,824,195

See accompanying Notes to Parent Company Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2020	2019
NET INCOME	₱91,113,414	₱78,824,195
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Mark-to-market movement in investment at FVOCI (Note 9)	(1,886,393)	2,414,470
Change in remeasurement gain on retirement plan (Note 17)	3,761,200	1,109,471
	1,874,807	3,523,941
Tax effects	(1,128,360)	(332,841)
	746,447	3,191,100
<i>Other comprehensive income (loss) may be reclassified to profit or loss in subsequent periods:</i>		
Share in the other comprehensive income of a subsidiary and an associate (Note 10)	1,896,494	466,470
	2,642,941	3,657,570
TOTAL COMPREHENSIVE INCOME	₱93,756,355	₱82,481,765

See accompanying Notes to Parent Company Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 14)	Retained earnings	Net unrealized gain on fair value changes in investment at FVOCI (Note 9)	Remeasurement loss on retirement plan (Note 17)	Share in other comprehensive income (loss) of a subsidiary (Note 10)	Total
Balances at January 1, 2020	₱212,149,000	₱83,957,623	₱2,414,470	(₱211,265)	₱372,559	₱298,682,387
Issuance of capital stock (Note 14)	89,799,100	—	—	—	—	89,799,100
Total comprehensive income for the year	—	91,113,414	(1,886,393)	2,632,840	1,896,494	93,756,355
Dividend declared during the year (Note 14)	—	(82,633,599)	—	—	—	(82,633,599)
Stock issuance cost (Note 14)	—	(666,734)	—	—	—	(666,734)
Balances at December 31, 2020	₱301,948,100	₱91,770,704	₱528,077	₱2,421,575	₱2,269,053	₱398,937,509
Balances at January 1, 2019, as restated	192,565,750	47,333,332	—	(987,895)	(93,911)	238,817,276
Issuance of capital stock (Note 14)	19,583,250	—	—	—	—	19,583,250
Total comprehensive income for the year	—	78,824,195	2,414,470	776,630	466,470	82,481,765
Dividend declared during the year (Note 14)	—	(42,199,904)	—	—	—	(42,199,904)
Balances at December 31, 2019	₱212,149,000	₱83,957,623	₱2,414,470	(₱211,265)	₱372,559	₱298,682,387

See accompanying Notes to Parent Company Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱127,583,680	₱110,738,793
Adjustments for:		
Depreciation and amortization (Notes 11, 12 and 18)	46,972,339	36,016,390
Interest income (Notes 6, 7, 8, and 21)	(3,693,870)	(4,682,679)
Share in net income of a subsidiary and an associate (Note 10)	(2,654,022)	(1,902,669)
Interest expense (Notes 13 and 18)	1,034,092	1,147,670
Retirement expense (Note 17)	991,842	2,437,349
Foreign exchange loss	646,949	20,280
Loss on write-down of property and equipment (Note 11)	168,730	–
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Short-term investments	(1,855,013)	(32,660,436)
Receivables	216,368	16,525,508
Contract assets	(433,219)	435,048
Other current assets	(2,138,734)	894,800
Increase in the amounts of:		
Trade and other payables	(23,734,136)	12,024,826
Contract liabilities	12,055,322	(7,128,016)
Net cash generated from operations	155,160,328	133,866,864
Income tax paid	(39,324,496)	(30,314,030)
Interest received	3,463,493	4,440,009
Interest paid (Notes 13 and 18)	(1,034,092)	(11,023)
Contributions to retirement fund (Note 17)	(407,056)	(570,913)
Net cash provided by operating activities	117,858,177	107,410,907
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 11)	(14,450,313)	(23,111,370)
Software (Note 12)	(12,026,195)	–
Financial asset at FVOCI (Note 9)	(6,002,677)	–
Investment in an associate (Note 10)	–	(5,634,360)
Long-term time deposit placement	(20,000,000)	–
Refund of other long-term deposit	935,844	–
Cash used in investing activities	(51,543,341)	(28,745,730)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares of stocks (Note 14)	₱23,294,400	₱4,584,450
Payment of principal portion of lease liabilities (Note 18)	(16,752,561)	(12,019,818)
Payment of cash dividends (Note 14)	(16,128,899)	(27,201,104)
Stock issuance cost (Note 14)	(666,734)	–
Settlement of loans	–	(595,495)
Net cash used in financing activities	(10,253,794)	(35,231,967)
Effect of changes in foreign exchange rates	(199,073)	(20,280)
NET INCREASE (DECREASE) IN CASH	55,861,969	43,412,930
CASH AT BEGINNING OF YEAR	94,472,845	51,059,915
CASH AT END OF YEAR (Note 6)	₱150,334,814	₱94,472,845

See accompanying Notes to Parent Company Financial Statements.



CARD MRI INFORMATION TECHNOLOGY, INC.

NOTES TO PARENT COMPANY 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 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% of direct ownership interest over CMHI in 2020 and 2019. 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's principal place of business is at No. 35 P. Burgos Street corner M. Paulino Street, San Pablo City, Laguna. Based on the provisions of the Revised Corporation Code of the Philippines or RA 11232, the Parent Company has a perpetual existence.

2. Summary of Significant Accounting Policies

Basis of Preparation

The parent company financial statements have been prepared on a historical cost basis. The parent company financial statements are presented in Philippine peso (₱ or PHP), which is the Parent Company's functional currency, and all amounts are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The accompanying parent company financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

These parent company financial statements are the separate financial statements of the Parent Company for management's use and for filing with the Bureau of Internal Revenue (BIR). These parent company financial statements account for the Parent Company's investments in a subsidiary and associate under the equity method as provided for under Philippine Accounting Standard (PAS) 27, *Separate Financial Statements* (Note 10).

The Parent Company also prepares and issues consolidated financial statements as at and for the same period ended as these separate financial statements. Such consolidated financial statements provide information about the economic activities of the Parent Company and its subsidiary and associate and may be obtained from the Parent Company's registered office address.



The table below lists the Parent Company's investments in a subsidiary and an associate, their corresponding principal place of business/country of incorporation, as well as the Parent Company's proportion of the ownership interest held in these entities:

	Country of Incorporation	Direct Percentages of Ownership		Effective Percentages of Ownership	
		December 31		December 31	
		2020	2019	2020	2019
Subsidiary					
CMHI	Philippines	51.00	51.00	51.00	51.00
Associate					
Asenso Tech Pte. Ltd. (ATPL)	Singapore	–	24.95	–	24.95

Presentation of Parent Company Financial Statements

The statements of financial position 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 Parent Company 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 Parent Company 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 Parent Company.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Parent Company has adopted the following new accounting pronouncements starting January 1, 2020. The adoption of the new and amended standards and interpretations did not have any impact on the parent company financial statements unless otherwise indicated.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16, *COVID-19-related Rent Concessions*
- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*



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 and Cash Equivalents

Cash includes cash on hand and in banks. Cash in banks represent demand, and savings deposits that earn interests at the respective bank deposit rates. Time deposits are short-term deposits in banks with maturity ranging to 1 to 90 days 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 360 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 Parent Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.



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 Parent Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the parent company 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 parent company financial statements on a recurring basis, the Parent Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at every reporting date.

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of recognition

Financial instruments within the scope of PFRS 9 are recognized in the statement of financial position when the Parent Company becomes a party to the contractual provisions of the instrument. 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 using the trade date accounting.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Parent Company's business model for managing them. The Parent Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Parent Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.



Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Parent Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments),
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments),
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments), and
- FVTPL.

Financial assets at amortized cost

This category is the most relevant to the Parent Company. The Parent Company measures financial assets at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Parent Company's financial assets at amortized cost include 'Cash and cash equivalents', 'Short-term investments', 'Receivables' and long-term deposit time deposit under 'Other noncurrent assets'.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the Parent Company can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets can no longer be recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right of payment has been established, except when the Parent Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

The Parent Company's financial assets at FVOCI includes investments in unquoted equity instruments under 'Other noncurrent assets'.

Derecognition

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

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



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

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 Parent Company could be required to repay.

Impairment of Financial Assets

The Parent Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments 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 Parent Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

However, in certain cases, the Parent Company may also consider a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Parent Company's financial liabilities include 'Trade and other payables' and 'Subscription payable'.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss, and
- Financial liabilities at amortized cost (loans and borrowings)



Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. 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 the 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 profit or loss.

Offsetting of Financial Instruments

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

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 Parent Company 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 Parent Company'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 Parent Company'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 Parent Company's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate, the Parent Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Parent Company and its associate are eliminated to the extent of the interest in the associate.

When the Parent Company's share of losses of in an associate equal or exceeds its interest in the associate, the Parent Company 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 Parent Company and its associate are eliminated to the extent of the interest in the associate.

Upon loss of significant influence over the associate, the Parent Company 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 parent company financial statements of the associate is prepared for the same reporting period as the Parent Company. The associate's accounting policies conform to those used by the Parent Company for like transactions and events in similar circumstances.



Investment in a Subsidiary

A subsidiary is an entity over which the Parent Company has control. The Parent Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 (IT) equipment	2 to 5 years
Furniture, fixtures and equipment	2 to 5 years
Transportation equipment	3 years
	2 to 3 years or the lease term, whichever is
Leasehold improvements	shorter
ROU assets	1 to 3 years

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 either 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 a software cost or whether it is obtaining goods and services that are being used in the development of a 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 Parent Company 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 Parent Company 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 Assets

A contract asset is initially recognized for revenue earned from services because the receipt of consideration is conditional on successful completion of the installation. Upon completion of the



installation and acceptance by the customer, the amount recognized as contract assets is reclassified to trade receivables.

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 when it is expected to be collected in the ensuing period, otherwise, it is presented as an asset during the period.

Retained earnings

Retained earnings represent all accumulated profits or losses of the Parent Company 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.

Other Comprehensive Income

Other comprehensive income (OCI) comprises items of income and expenses that are recognized directly in equity. OCI items are either reclassified to profit or loss or directly within equity in subsequent periods.

Revenue Recognition

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

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 (i.e., date of declaration) payment is established.

Miscellaneous income

Miscellaneous income is recognized when it is probable that the economic benefit will flow to the Parent Company 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:

- based on direct association between the costs incurred and the earning of specific items of income;
- based on 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.

General and administrative expenses

Expenses encompasses losses as well as those that arise in the ordinary course of the business of the Parent Company. 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 or qualifying insurance policies. 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 Parent Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Parent Company as a lessee

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

- **Right-of-use assets**

The Parent Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Parent Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and its lease term.

If ownership of the leased asset transfers to the Parent Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

- **Lease liabilities**

At the commencement date of the lease, the Parent Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Parent Company and payments of penalties for terminating the lease, if the lease term reflects the Parent Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.



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

- **Short-term leases and leases of low-value assets**
The Parent Company applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of office space, vehicles and computer equipment. Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Cost of services' for leases attributable to direct cost of service and 'Miscellaneous' for leases attributable to general and administrative expenses on a straight-line basis over the lease term.

Income and Other 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 Parent Company 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 Parent Company 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 parent company 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 parent company 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 Parent Company's position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are non-adjusting events, if any, are disclosed when material to the parent company financial statements.

Standards Issued but not yet Effective

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

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*



Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
 - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
 - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

3. Significant Accounting Judgments and Estimates

The preparation of the parent company financial statements in compliance with PFRSs requires management to make judgments and estimates that affect the amounts reported in the parent company financial statements and accompanying notes.

The judgments and estimates used in the accompanying parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the parent company financial statements. Actual results could differ from such estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under circumstances.

Judgment

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

Revenue recognition on services

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in determining the timing of satisfaction of the services. The Parent Company concluded that revenue for project management services, SaaS and one-time services is to be recognized over time because the customer simultaneously receives and consumes the benefits provided by the Parent Company. The Parent Company uses output method in measuring progress of the project management services. The Parent Company recognizes revenue based on actual project milestone basis.

Revenue recognized in 2020 and 2019 is disclosed in Note 15. The accounting policy in relation to revenue recognition is disclosed in Note 2.



Leases - Estimating the incremental borrowing rate

The Parent Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Parent Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Parent Company estimates the IBR using observable inputs (by reference to average bank lending rates).

The Parent Company's lease liabilities amounted to ₱6.39 million as of December 31, 2020 (Note 18).

Assessment of control over an investee

The determination on whether the Parent Company has control over an investee requires significant judgment. For this, the Parent Company considers the following factors: (a) power over the investee, (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns. In assessing whether the Parent Company has power over the investee, the Parent Company assesses whether it has existing rights that give it the current ability to direct the relevant activities of the investee.

The investment in a subsidiary of the Parent Company is disclosed in Note 10 and the related applicable accounting policy is disclosed in Note 2.

Determination of significant influence over another entity

The determination of significant influence over another entity, other than the rebuttable presumption of ownership over twenty percent (20.0%), requires significant judgment. In making judgment, the Parent Company evaluates existence of the following:

- representation on the BOD or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the entity and its investee;
- interchange of managerial personnel; or
- provision of essential technical information.

Classification of financial assets

The Parent Company classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Parent Company uses the following relevant and objective evidences to determine the business model for particular financial assets:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Parent Company's key management personnel; and
- the risks that affect the performance of the business model and the financial assets held within that business model and the way those risks are managed.



At initial recognition the Parent Company at its sole option may irrevocably designate an investment in an equity instrument as FVOCI, unless the asset is:

- Held for trading, or
- Contingent consideration in a business combination.

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

The Parent Company elects to apply this option if its investments in equity instruments are held for non-contractual benefits rather than primarily for their increase in value.

As of December 31, 2020, the Parent Company owns investments totaling ₱8.18 million which were irrevocably designated as financial assets at FVOCI (Note 9).

Estimates

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

Net plan assets and retirement expense

The determination of the Parent Company'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 17 to the parent company 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 Parent Company's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

As at December 31, 2020 and 2019, the present value of the retirement obligation and fair values of retirement assets of the Parent Company, including the details of the assumptions used in the calculation, are disclosed in Note 17.

Valuation of other long-term employee benefits

Other long-term employee benefits pertain to the vacation leave credits that can be carried over and monetized by the employees. The valuation of the Parent Company's accrual for other long-term employee benefits are dependent on certain assumptions used by its internal actuary in calculating such amounts. Those assumptions include, among others, discount and salary rates, future salary increase and average remaining working lives of employees.

As at December 31, 2020 and 2019, the amount of other long-term employee benefits accrued by the Parent Company is ₱2.46 million and ₱3.28 million, respectively (Note 13).

Fair value of financial instruments

Where the fair values of financial instruments recorded in the statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values.



The fair value of the Parent Company's financial asset at FVOCI, as well as the manner in which fair value was determined, is discussed in more detail in Note 9.

4. Fair Value Measurement

The methods and assumptions used by the Parent Company in estimating the fair values of financial instruments are:

Cash and cash equivalents, short-term investments, receivables, long-term deposit time deposit under other noncurrent assets, trade and other payables and subscription payable

Carrying amounts of these financial instruments approximate their fair values.

Refundable deposits classified under other current assets

The fair value of refundable deposits was computed using the discounted cash flow methodology using current market rate.

Lease liabilities under trade and other payables

The fair value of lease liabilities is determined based on the discounted value of future rental payments using the applicable incremental borrowing rates.

Financial Assets at FVOCI

The fair values of the Parent Company's financial assets at FVOCI are derived using acceptable valuation methods. The valuation assumptions used are Level 3 inputs which were based on relevant information existing at the report dates.

Descriptions of significant unobservable inputs to valuation under Level 3 of the fair value category follow:

Account	Valuation Technique	Significant Unobservable Input
Refundable deposits	Discounted cash flow	Risk premium rate
Financial assets at FVOCI	Adjusted net asset value method	Adjusted net asset of the investee

5. Financial Risk Management Objectives and Policies

The Parent 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 Parent Company involves identifying and assessing risks, designing strategies and implementing policies to mitigate risks, and conducting evaluation for adjustments needed to minimize risks.



The BOD is responsible for monitoring the 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 Parent Company is strengthened in conjunction with the Internal Audit (IA) functions of CARD MRI. 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 Parent Company manages its credit risk by constantly monitoring its credit exposure to counterparties.

Maximum exposure to credit risk

The maximum exposure of the Parent Company's financial instruments is equivalent to the carrying values as reflected in the statements of financial position and related notes. The Parent Company holds no collateral and other credit enhancements against its credit risk exposure as at December 31, 2020 and 2019.

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 Parent Company's financial assets are concentrated to financial intermediaries and other institutions within CARD MRI.

Credit quality per class of financial assets

The Parent Company's financial instruments 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.

As at December 31, 2020 and 2019, the Parent Company has no past due and impaired receivables.

Liquidity Risk

The tables below summarize the maturity profile of the financial instruments of the Parent Company based on contractual undiscounted cash flow as at December 31, 2020 and 2019:

	2020					
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	Total
Financial Assets						
Cash and cash equivalents*	₱138,551,257	₱-	₱12,077,940	₱-	₱-	₱150,629,197
Short-term investments	-	10,882,570	-	79,667,162	-	90,549,732
Receivables	29,808,965	-	-	-	-	29,808,965
Financial assets at FVOCI	-	-	-	-	10,064,147	10,064,147
Long-term time deposit	-	-	-	-	24,000,000	24,000,000
Refundable deposits	-	-	-	4,375,873	-	4,375,873
	168,360,222	10,882,570	12,077,940	84,043,035	34,064,147	309,427,914
Financial Liabilities						
Trade and other payables**	6,213,007	-	-	-	-	6,213,007
Lease liabilities	-	1,078,105	2,156,209	3,278,172	-	6,512,486
Subscriptions payable	-	-	-	-	47,812,500	47,812,500
	6,213,007	1,078,105	2,156,209	3,278,172	47,812,500	60,537,993
	₱162,147,215	₱9,804,465	₱9,921,731	₱80,764,863	(₱13,748,353)	₱248,889,921

*Excludes cash on hand amounting to ₱15,000

**Excludes 'Lease liability', 'VAT payable' and 'Statutory payable' amounting to ₱6,387,972, ₱2,889,055 and ₱600,155, respectively.



	2019					Total
	On demand	Due within 1 month	1 to 3 months	3 to 12 months	Beyond 1 year	
Financial Assets						
Cash and cash equivalents*	₱82,764,127	₱11,700,994	₱—	₱—	₱—	₱94,465,121
Short-term investments	—	—	39,442,067	45,791,024	—	85,233,091
Receivables	28,859,770	—	—	—	—	28,859,770
Financial assets at FVOCI	—	—	—	—	4,061,470	4,061,470
Refundable deposits	—	—	1,452,129	4,506,770	935,844	6,894,743
	111,623,897	11,700,994	40,894,196	50,297,794	4,997,314	219,514,195
Financial Liabilities						
Trade and other payables**	30,431,946	—	—	—	—	30,431,946
Lease liabilities	—	1,612,585	2,169,798	5,770,083	3,038,254	12,590,720
Subscriptions payable	—	—	—	—	47,812,500	47,812,500
	30,431,946	1,612,585	2,169,798	5,770,083	50,850,754	90,835,166
	₱81,191,951	₱10,088,409	₱38,724,398	₱44,527,711	(₱45,853,440)	₱128,679,029

*Excludes cash on hand amounting to ₱15,000

**Excludes 'Lease liability', 'VAT payable' and 'Statutory payable' amounting to ₱12,019,818, ₱2,990,275 and ₱1,048,224, respectively.

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.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The closing rates used are as follows:

	2020	2019
One (1) US Dollar (USD) to PHP	48.023	50.635

The table below summarizes the Parent Company's exposure to foreign exchange risk as of December 31, 2020 and 2019, presented at carrying amount.

	2020		2019	
	USD	PHP	USD	PHP
Cash in bank	\$64,932	₱3,119,081	\$61,160	₱3,096,837
Receivables	108,000	5,634,360	—	—
	\$172,932	₱8,753,441	\$61,160	₱3,096,837

The table below indicates the impact of the range of reasonably possible changes in the USD exchange rate per Philippine peso on the pre-tax income of the Parent Company.

	2020		2019	
	1.20%	(1.20%)	1.00%	(1.00%)
Change in pre-tax income	105,041	(105,041)	30,968	(30,968)
As % of the Parent Company's income before income tax	0.08%	(0.08%)	0.03%	(0.03%)



Interest rate risk

Interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates.

As of December 31, 2020 and 2019, the Parent Company has no repricing financial instruments. Cash and cash equivalents, short-term investments and long-term time deposit have fixed interest rates. As such, the Parent Company's exposure to interest rate risk is minimal.

6. Cash and Cash Equivalents

This account consists of:

	2020	2019
Cash on hand	₱15,000	₱15,000
Cash in banks	138,551,257	82,764,127
Cash equivalents	11,768,557	11,693,718
	₱150,334,814	₱94,472,845

Cash in banks consist of demand deposits and a dollar account. The Parent Company's demand deposits are used in its day-to-day operations and are non-interest bearing. Cash in banks earn interest rates ranging from 0.05% to 0.18% and from 0.10% to 6.00% in 2020 and 2019, respectively.

Cash equivalents consist of time deposit facilities with maturities of one to 90 days maintained by the Parent Company in local banks. The time deposit facilities earn interest at rates ranging from 2.00% to 4.25% and from 3.00% to 4.00% in 2020 and 2019, respectively.

Interest income earned by the Parent Company from its cash and cash equivalents amounted to ₱0.83 million in 2020 and 2019.

7. Short-term Investments

Short-term investments represent time deposits with maturities of more than three months but less than one (1) year. As at December 31, 2020 and 2019, the short-term investments amounted to ₱87.09 million and ₱85.23 million, respectively.

Short-term investments earn annual interest ranging from 3.00% to 6.00% and 3.30% to 6.00% in 2020 and 2019, respectively. Interest income from short-term investments by the Parent Company amounted to ₱2.63 million and ₱3.45 million in 2020 and 2019, respectively.

8. Receivables

The composition of the account is as follows:

	2020	2019
Receivable from a related party (Note 21)	₱12,688,256	₱24,396,032
Other receivables	17,120,709	442,817
	₱29,808,965	₱24,838,849



As of December 31, 2020, the Parent Company's receivable from related parties includes receivable from FDS Asya Philippines, Inc. (FDSAP) for management services rendered.

Other receivables pertain to claims against non-related parties and from officers and employees which are noninterest-bearing and are due and demandable. This include the ₱10.50 million and ₱5.63 million receivables from Asenso Tech, Inc. and Asenso Tech Pte. Ltd., respectively. The receivables from these companies pertain to the planned investments in common shares that were subsequently withdrawn by the Parent Company. These amounts are expected to be collected from the counterparties within one (1) year.

Interest income on receivable from related parties amounted to nil and ₱0.16 million in 2020 and 2019, respectively (see Note 21).

9. Other Assets

Other current assets consist of:

	2020	2019
Financial assets		
Refundable deposits (Note 18)	₱4,375,873	₱5,958,899
Nonfinancial assets		
Prepaid expenses	13,376,550	14,025,828
Input VAT	7,859,136	9,063,070
Stationery and supplies	181,832	215,927
	21,417,518	23,304,825
	₱25,793,391	₱29,263,724

Prepaid expenses pertain to unexpired subscriptions to software licenses and servers that are usable for one year and prepayments for insurance with one-year expiry date. Refundable deposits pertain to rental deposits on the Parent Company's leased office spaces, staff house, transportation vehicle, and IT equipment with a term of less than one year with CARD Leasing Finance Corporation.

Other noncurrent assets consist of:

	2020	2019
Long-term time deposit	₱20,000,000	₱—
Financial assets at FVOCI	8,177,754	4,061,470
Refundable deposits (Note 18)	—	935,844
	₱28,177,754	₱4,997,314

Long-term time deposit pertains to a 5-year placement made by the Parent Company to a local bank. This facility earns 4.00% interest annually.

As of December 31, 2020 and 2019, the Parent Company has a ₱4.06 million investment in the common stock of CARD MRI Insurance Agency. This is equivalent to a 3.29% ownership interest over the investee.



In 2020, the Parent Company acquired 39,930 common shares of CARD SME Bank, Inc., A Thrift Bank, equivalent to a 0.34% ownership, for a total consideration of ₱6.00 million.

The Parent Company has irrevocably elected to classify these investments as at FVOCI as it intends to hold these investments for the foreseeable future.

Movements in the investment in financial assets at FVOCI follow:

	2020	2019
Beginning balance	₱4,061,470	₱1,647,000
Fair value changes during the year	(1,886,393)	2,414,470
Additional investment	6,002,677	—
Ending balance	₱8,177,754	₱4,061,470

Dividends received from these unquoted securities amounted to ₱1.97 million and ₱0.82 million in 2020 and 2019, respectively.

10. Investments in a Subsidiary and an Associate

Movements of investment in a subsidiary follow:

	2020	2019
Acquisition cost		
Balance at beginning and end of year	₱63,750,000	₱63,750,000
Accumulated equity in net earnings		
Balance at beginning of year	4,624,657	2,565,736
Share in net income for the year	2,497,770	2,058,921
	7,122,427	4,624,657
Accumulated equity in other comprehensive income (loss)		
Balance at beginning of year	372,559	(93,911)
Share in other comprehensive income for the year	1,896,494	466,470
	2,269,053	372,559
	₱73,141,480	₱68,747,216

Acquisition of CMHI

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 Parent Company 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 FDS Asya Pte. Ltd. (FAPL). CMHI owns 47.00% voting interest in FAPL.



Movements of investment in an associate follow:

	2020	2019
Acquisition cost		
Beginning	₱5,634,360	₱5,634,360
Withdrawal of investment during the year	(5,634,360)	—
Balance at end of year	—	5,634,360
Accumulated equity in net losses		
Balance at beginning of year	(156,252)	—
Reversal of prior year accumulated equity in net losses	156,252	—
Share in net loss for the year	—	(156,252)
	—	(156,252)
	₱—	₱5,478,108

In 2019, the Parent Company acquired 24.95% ownership over Asenso Tech Pte. Ltd., a company engaged in finance technology and incorporated under the laws of Singapore, for a total consideration of ₱5.63 million (\$108,000). Accordingly, the Company accounted for this as an investment in associate. However, in 2020, the Company withdrew its investment for a consideration of \$108,000 to be collected within one (1) year (Note 8).

11. Property and Equipment

The Parent Company's property and equipment consists of:

	2020				
	IT Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	ROU Assets	Total
Cost					
Balance at beginning of year	₱104,585,637	₱6,628,157	₱9,314,439	₱24,941,842	₱145,470,075
Additions	13,872,371	577,942	—	10,283,478	24,733,791
Write-off	(₱36,161,478)	(₱5,535,587)	(₱4,478,502)	₱—	(₱46,175,567)
Balances at end of year	82,296,530	1,670,512	4,835,937	35,225,320	124,028,299
Accumulated depreciation					
Balance at beginning of year	58,896,212	5,969,615	6,640,876	12,514,264	84,020,967
Depreciation (Notes 15 and 18)	22,385,235	914,247	1,557,433	15,939,174	40,796,089
Write-off	(36,161,387)	(5,535,533)	(4,309,917)	—	(46,006,837)
Balance at end of year	45,120,060	1,348,329	3,888,392	28,453,438	78,810,219
Net book value at end of year	₱37,176,470	₱322,183	₱947,545	₱6,771,882	₱45,218,080

	2019				
	IT Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	ROU Assets	Total
Cost					
Balance at beginning of year	₱81,883,982	₱6,424,075	₱9,314,439	₱19,148,008	₱116,770,504
Additions	22,907,288	204,082	—	5,793,834	28,905,204
Write-off	(205,633)	—	—	—	(205,633)
Balances at end of year	104,585,637	6,628,157	9,314,439	24,941,842	145,470,075
Accumulated depreciation					
Balance at beginning of year	45,792,871	5,139,893	3,818,268	—	54,751,032
Depreciation (Notes 15 and 18)	13,308,969	829,722	2,822,608	12,514,264	29,475,563
Write-off	(205,628)	—	—	—	(205,628)
Balance at end of year	58,896,212	5,969,615	6,640,876	12,514,264	84,020,967
Net book value at end of year	₱45,689,425	₱658,542	₱2,673,563	₱12,427,578	₱61,449,108



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

	2020	2019
Depreciation and amortization of property and equipment		
Cost of services (Note 15)	₱39,212,860	₱27,515,625
General and administrative expenses (Note 19)	1,583,229	1,959,938
	40,796,089	29,475,563

In 2020, disposals comprise of fully depreciated and obsolete IT equipment, furniture, fixtures and equipment and leasehold improvements. In 2019, disposals comprise only of fully depreciated laptops.

12. Software Costs

The Parent Company's software costs consist of:

	2020	2019
Cost		
Balance at beginning of year	₱74,416,212	₱74,416,212
Additions	12,026,195	—
Write-down	(51,588,976)	—
	34,853,431	74,416,212
Accumulated amortization		
Balance at beginning of year	62,070,119	55,529,292
Amortization (Notes 15 and 19)	6,176,250	6,540,827
Write-down	(51,588,976)	—
	16,657,393	62,070,119
	₱18,196,038	₱12,346,093

Amortization charged to the parent company statements of income is presented under:

	2020	2019
Cost of services (Note 15)	₱6,176,250	₱6,485,065
General and administrative expenses (Note 19)	—	55,762
	₱6,176,250	₱6,540,827



13. Trade and Other Payables

This account consists of:

	2020	2019
Financial liabilities		
Lease liabilities (Note 18)	₱6,387,971	₱12,019,818
Accrued expenses	3,658,702	5,151,974
Accounts payable	2,554,306	25,279,972
	12,600,979	42,451,764
Nonfinancial liabilities		
VAT payable	2,889,055	2,990,275
Statutory payable	459,489	377,046
Withholding taxes payable	140,666	671,178
	3,489,210	4,038,499
	₱16,090,189	₱46,490,263

Accounts payable consists of amounts due to suppliers for purchased equipment and software costs.

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

Statutory payable includes accrual of regulatory remittances to Social Security System, Philippine Health Insurance and Home Development Mutual Fund Corporation.

14. Equity

Capital Stock

As at December 31, 2020 and 2019, the Parent Company's capital stock consists of:

	2020		2019	
	Shares	Amount	Shares	Amount
Par value – ₱ 100 per share				
Authorized	5,000,000	₱500,000,000	5,000,000	₱500,000,000
Issued and outstanding				
Beginning balance	2,121,490	₱212,149,000	1,925,658	₱192,565,750
Issuance of shares of stocks through stock dividends	665,047	66,504,700	149,988	14,998,800
Issuance of shares of stocks from settlement of subscriptions receivables	232,944	₱23,294,400	45,844	₱4,584,450
	3,019,481	301,948,100	2,121,490	212,149,000
Subscribed	449,918	44,991,800	28,498	2,849,800
Subscriptions receivable	—	(44,991,800)	—	(2,849,800)
	449,918	₱—	28,498	₱—



Dividends

In 2020 and 2019, the Parent Company declared and recorded dividends below:

Date of declaration	Cash dividends		Record date
	Per share	Total amount	
February 14, 2020	₱7.50	₱16.13 million	February 27, 2020
December 13, 2019	₱8.00	₱17.20 million	November 31, 2019
November 8, 2019	₱5.00	₱10.00 million	September 30, 2019

Date of declaration	Stock dividends		Record date
	Type	Total amount	
November 13, 2020	Common	₱8.78 million	November 18, 2020
September 11, 2020	Common	₱41.60 million	September 16, 2020
February 14, 2020	Common	₱16.12 million	February 27, 2020
November 8, 2019	Common	₱15.00 million	September 30, 2019

Subscription Receivable

Subscription receivable is a contra-account which pertains to the unpaid portion of the subscribed capital stock to the Company.

Stock issuance cost

In 2020, the Parent Company incurred stock issuance cost totaling ₱666,734. This amount was deducted directly to the retained earnings.

Capital Management

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

15. Service Income and Cost of Services

Service income

In 2020 and 2019, the service income earned by the Parent Company are the following:

	2020	2019
Software as a service	₱280,331,431	₱260,751,073
Project management service	468,176	20,180,634
One-time services	944,175	—
	₱281,743,782	₱280,931,707

The related contract balances arising from these services follow:

	2020	2019
Contract assets (Note 8)	₱4,454,140	₱4,020,921
Contract liabilities (Note 13)	(12,317,191)	(261,869)
	(₱7,863,051)	₱3,759,052



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

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

Cost of services

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

	2020	2019
Depreciation (Notes 11 and 12)	₱45,389,110	₱34,000,690
IT expenses (Note 21)	32,148,774	41,056,653
Salaries, wages and other benefits (Notes 16 and 21)	26,918,740	29,125,615
Postage, telephone, cables & telegrams	13,754,177	16,080,008
Program monitoring and evaluation	2,375,350	1,982,645
Power, light and water	1,378,475	2,058,288
Interest expense on lease liabilities (Note 18)	1,034,092	1,136,647
Staff training and development	489,101	2,162,722
Others	797,693	4,647,420
	₱124,285,512	₱132,250,688

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

16. Salaries, Wages and Other Benefits

The Parent Company's salaries, wages and other benefits consist of:

	2020	2019
Salaries, wages and other benefits	₱26,603,496	₱23,880,468
Other short-term employee benefits	12,076,353	13,540,265
Retirement expense (Note 17)	991,842	2,437,349
	₱39,671,691	₱39,858,083

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

	2020	2019
Cost of information technology services (Note 15)	₱26,918,740	₱29,125,615
General and administrative expense	12,752,951	10,732,468
	₱39,671,691	₱39,858,083

The Parent Company uses specific identification to allocate salaries, wages and other benefits into 'Cost of information technology services' and 'General and administrative expenses'.



17. Retirement Benefits

The Parent Company, CARD MRI Development Institute, Inc., CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency, Inc., CARD-Business Development Service Foundation, Inc., CARD Bank, Inc., CARD Employees Multi-Purpose Cooperative, Responsible Investments for Solidarity and Empowerment Financing Co., BotiCARD Inc., CARD Leasing and Finance Corporation, RBI, CARD, Inc. and Mga Likha ni Inay Inc., 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, 2020 and 2019, total retirement expense related to Hybrid Plan amounted to ₱0.99 million and ₱2.44 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, 2020 and 2019.



Changes in the Parent Company's net defined benefit asset (liability) in 2020 and 2019 follow:

2020												
	Net benefit cost in statements of income*				Benefits Paid from Plan Assets excluding settlements including transfers	Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal		Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer
Fair value of plan assets	₱35,495,232	₱–	₱1,913,063	₱1,913,063	(₱66,656)	₱1,941,193	₱–	₱–	₱–	₱–	₱1,941,193	₱407,056
Present value of defined benefit obligation	(17,235,972)	(1,660,798)	(954,873)	(2,615,671)	66,656	–	(582,247)	–	104,044	790,591	312,388	–
Asset ceiling	(5,220,833)	–	(289,234)	(863,620)	–	–	–	1,507,620	–	–	1,507,620	–
Net defined asset (liability)	₱13,038,427	(₱1,660,798)	₱668,956	(₱1,566,228)	₱–	₱1,941,193	(₱582,247)	₱1,507,620	₱104,044	₱790,591	₱3,761,201	₱407,056
												₱18,409,815

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

2019												
	Net benefit cost in statements of income*				Benefits Paid from Plan Assets excluding settlements including transfers	Remeasurements in other comprehensive income						
	January 1	Current service cost	Net interest	Subtotal		Return on plan assets (excluding amount included in net interest)	Experience adjustments	Actuarial changes arising from changes in the effect of asset ceiling	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer
Fair value of plan assets	₱36,274,792	₱–	₱2,810,404	₱2,810,404	(₱2,437,761)	(₱1,723,116)	₱–	₱–	₱–	₱–	(₱1,723,116)	₱570,913
Present value of defined benefit obligation	(11,263,551)	(3,516,840)	(867,293)	(4,384,133)	2,437,761	–	(64,705)	–	(121,356)	(3,839,988)	(4,026,049)	–
Asset ceiling	(11,215,849)	–	(863,620)	(863,620)	–	–	–	6,858,636	–	–	6,858,636	–
Net defined asset (liability)	₱13,795,392	(3,516,840)	₱1,079,491	(₱2,437,349)	₱–	(₱1,723,116)	(₱64,705)	₱6,858,636	(₱121,356)	(₱3,839,988)	₱1,109,471	₱570,913
												₱13,038,427

In 2020 and 2019, transfers from the plan pertain to the transfer of employees from the Parent Company to other affiliates within other institutions in MERP.



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:

	2020		2019	
	Amount	%	Amount	%
Cash and cash equivalents	₱15,466,882	50.50%	₱24,667,580	81.48%
Debt securities - government securities	13,719,004	44.79%	399,622	1.32%
Unquoted debt securities	511,330	1.67%	687,229	2.27%
Mutual funds	163,759	0.54%	172,564	0.57%
Loans	—	0.00%	3,499,721	11.56%
Other assets	765,323	2.50%	847,683	2.80%
Fair value of plan assets	₱30,626,298	100.00%	₱30,274,399	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 Parent Company's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

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

	2020	2019
Discount rates	3.90%	5.54%
Future salary increases	3.00%	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:

	2020		2019	
	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	+100 -100	(1,888,421) 2,266,782	+100 -100	(1,959,011) 2,352,618
Future salary increases	+100 -100	2,264,393 (1,920,515)	+100 -100	2,341,422 (1,985,476)

The average duration of the DBO is 12.1 years as at December 31, 2020.



Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2020 and 2019:

	2020	2019
Less than 1 year	₱943,348	₱876,193
More than 1 year to 5 years	5,349,587	4,389,496
More than 5 years to 10 years	10,024,318	8,946,651
More than 10 years to 15 years	10,374,551	16,425,065
More than 15 years to 20 years	10,553,670	18,729,899
More than 20 years to 25 years	14,846,847	18,510,092
More than 25 years	26,710,418	48,911,168

18. Leases

The Parent Company leases office spaces, vehicles, and IT equipment in which lease payments are subjected to escalation clauses ranging from nil to 10.00%. The lease contracts are for the periods ranging from one (1) to three (3) years and are renewable upon mutual agreement between the Parent Company and the lessors such as CARD Bank, Inc., CARD MRI Property Holdings, CARD MBA and third-party lessors.

The Parent Company recognized rent expense amounted to ₱0.84 million and ₱0.48 million in 2020 and 2019, respectively. Rent expense in 2020 pertains to expenses from short-term leases and leases of low-value assets.

In 2020 and 2019, the Parent Company recognized interest income arising from amortization of security deposit amounted to ₱0.23 million and ₱0.24, respectively.

As of December 31, 2020, and 2019, the Parent Company has no contingent rent payable.

The following are the amounts recognized in the Parent Company's statement of income:

	2020	2019
Depreciation expense of ROU assets included in property and equipment	₱15,939,174	₱12,514,264
Interest expense on lease liabilities	1,034,092	1,136,647
Lease payments relating to short-term leases and leases with low value assets	841,740	483,154
Total amount recognized in statement of income	₱17,815,006	₱14,134,065

The movements in the carrying amount of 'lease liabilities' follow:

	2020	2019
Balance at beginning of year	₱12,019,818	₱18,155,315
Additions	10,086,623	5,661,110
Interest expense	1,034,092	1,136,647
Payments	(16,752,561)	(12,933,254)
	₱6,387,972	₱12,019,818



Shown below is the maturity analysis of the undiscounted lease payments:

	2020	2019
Within one year	₱6,512,486	₱9,552,466
Beyond one year	–	3,038,254
	₱6,512,486	₱12,590,720

19. Miscellaneous Expenses

This account consists of:

	2020	2019
Honorarium	₱558,611	₱505,000
Postage, telephone, cables and telegrams	549,736	351,813
Repairs and maintenance	375,610	858,174
Insurance expense	275,428	661,983
Penalties and other charges	215,673	–
Donations and charitable contributions	56,000	23,500
Supervision and examination	25,165	69,642
Banking fees	20,502	25,636
Membership fees and dues	17,857	17,857
Service fee	11,790	53,256
Loss from Forex	–	20,280
Interest expense (Note 13 and 18)	–	11,023
Others	616,508	333,870
	₱2,722,880	₱2,932,034

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

20. Income Taxes

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

The Parent Company’s provision for (benefit from) income tax consists of:

	2020	2019
Current	₱39,864,566	₱30,775,250
Deferred	(4,085,280)	310,049
Final	690,980	829,299
	₱36,470,266	₱31,914,598

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 Parent Company elected to claim itemized expense deductions instead of OSD.

As at December 31, 2018, the Parent Company 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 statements of financial position follows:

	2020	2019
Deferred tax assets on:		
Contract liabilities	₱3,695,157	₱78,561
Unamortized past service cost	2,027,719	1,885,288
Accrued other expenses	1,097,610	1,545,592
Right-of-use assets	472,074	(122,328)
Unrealized foreign exchange losses	134,363	—
	7,426,923	3,387,113
Deferred tax liabilities on:		
Retirement asset	(4,864,453)	(3,911,528)
Contract asset	(1,336,242)	(1,206,276)
	(6,200,695)	(5,117,805)
	₱1,226,228	(₱1,730,692)

Benefit from deferred income tax on remeasurements on retirement plan that was charged directly to OCI in 2020 and 2019 amounted to ₱1.13 million and ₱0.33 million, respectively.

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

	2020	2019
Statutory income tax	₱38,275,104	₱35,630,773
Tax effects of:		
Non-taxable income	(1,387,657)	(3,300,287)
Interest income subject to final tax	(417,181)	(453,610)
Nondeductible expense	—	37,722
Effective income tax	₱36,470,266	₱31,914,598



21. Related Party Transactions

Parties are 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 Parent Company's related parties include:

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

The Parent 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.

Other related party transactions

Transactions between the Parent Company and its key management personnel meet the definition of related party transactions. Transactions between the Parent Company and its affiliates of the subsidiary also qualify as related party transactions.

Following are the related party transactions entered by the Parent Company:

Category	Amount/ Volume	Outstanding Balance	2020
			Nature, Terms and Conditions
Subsidiary			
Subscription payable	₱–	₱47,812,500	Represents payable for share of stocks
Others			
Cash and cash equivalents		205,076,569	Current and time deposits accounts earning annual interest rate ranging from 0.05% to 4.25%
Trade receivables		12,688,256	Billings of service fee and other charges by the Parent Company to related parties, payable on demand
Charges to affiliates	150,254,749		
Collections	(137,566,493)		
Other receivables		–	Represents the remaining interest-bearing receivable from transfer of assets from FDSAP and is to mature on September 15, 2020. The receivable earns 4.25% per annum.
Charges to associate	–		
Collections	(24,278,032)		
Refundable deposits		4,375,873	Pertain to the rental deposits of the Parent Company
Financial assets at FVOCI		8,177,754	Pertain to the investments in affiliates irrevocably assigned by the Parent Company as financial assets at FVOCI.
Long-term time deposit		20,000,000	Pertains to the 5-year time deposit placed by the Parent Company
Service income	135,705,578		Income earned from IT services provided by the Parent Company to related parties
Interest income	3,402,358	–	Represents the interest income earned from current and time deposits



Category	2019		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Subsidiary			
Subscription payable		₱47,812,500	Represents payable for share of stocks
Others			
Cash and cash equivalents		55,422,094	Current and time deposits accounts earning annual interest rate ranging from 0.10% to 4.00%
Trade receivables		118,000	Billings of service fee and other charges by the Parent Company to related parties, payable on demand
Charges to affiliates	₱120,379,051		
Collections	(127,086,202)		
Other receivables		24,278,032	Represents the remaining interest-bearing receivable from transfer of assets from FDSAP and is to mature on September 15, 2020. The receivable earns 4.25% per annum.
Charges to associate	—		
Collections	(10,000,000)		
Refundable deposits		5,958,899	Pertain to the rental deposits of the Parent Company
Financial assets at FVOCI		4,061,470	Pertain to the investments in affiliates irrevocably assigned by the Parent Company as financial assets at FVOCI.
Service income	104,392,518		Income earned from IT services provided by the Parent Company to related parties
Interest income	3,900,775		Represents the interest income earned from current and time deposits
Interest income - receivables	163,642	—	Represents the interest income earned from the accounts receivable from FDSAP.

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

As of December 31, 2020 and 2019, the Parent Company received the fourth and third installment of the cash consideration amounting to ₱24.28 million and ₱10.00 million, respectively, which constitutes the full amount of the loan.

Remuneration of key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Parent Company, directly or indirectly. Total remunerations of key management personnel are as follows:

	2020	2019
Short-term employee benefits	₱2,921,920	₱3,189,140
Post-employment pension benefits	5,610,259	5,342,787

22. Notes to Cash Flow Statements

The principal noncash activities of the Parent Company consist of:

	2020	2019
Issuance of stock dividends	₱66,504,700	₱14,998,800
Acquisition of property and equipment through lease	10,283,478	24,941,842
Regular corporate income tax offset with creditable withholding tax asset	5,642,589	—
Movement arising from share in OCI of subsidiary	1,892,637	90,385
Movement arising from		



23. Approval of the Release of the Parent Company Financial Statements

The accompanying parent company financial statements were approved and authorized for issue by the Parent Company's BOD on March 22, 2021.

24. 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 2020.

Business permits and licenses	₱156,970
Documentary stamp tax	239,912
Others	18,406
	<u>₱415,288</u>

The following withholding taxes remitted in 2020 or outstanding as of December 31, 2020:

	Total remittances	Balance as at December 31, 2020
Expanded withholding taxes	₱2,441,199	₱124,360
Withholding tax on compensation and benefits	529,862	16,305
Final withholding taxes	425,876	—
	<u>₱3,396,937</u>	<u>₱140,665</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 2020 are as follow:

- a. Net sales/receipts and output VAT declared in the Parent Company's VAT returns filed in 2020:

	Net sales/receipts	Output VAT
Taxable sales:		
Service income	₱293,374,802	₱35,204,976

The output VAT declared in the Parent Company's VAT returns includes output VAT from unearned service income amounting to P1.45 million.



b. Input VAT

Balance at beginning of period	₱9,063,070
Current year's domestic purchases/payments	10,453,615
Input tax used	(11,657,549)
Balance at end of period	₱7,859,136

Tax Assessment

In March 2020, the Parent Company received a letter of authority from BIR for the year ended December 31, 2019 to examine their books of accounts and other accounting records for all internal revenue taxes. No findings have yet been provided by the BIR on the said assessment.

The Parent Company has existing December 31, 2018 and 2019 letter of authority as of December 31, 2020.

As at December 31, 2020, there are no outstanding tax assessments and tax cases under investigations, litigations nor prosecution in courts or bodies outside the BIR.

