# PETNET, Inc.

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
PETNET, Inc.

## Report on the Audit of the Financial Statements

### Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its 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 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 Financial Statements

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

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 Bangko Sentral ng Pilipinas (BSP) Circular No. 1075 and Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1075 in Note 29 and Revenue Regulations 15-2010 in Note 30 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of PETNET, 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.

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PTR No. 8534211, January 4, 2021, Makati City

March 11, 2021

# PETNET, INC.
# STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 6 and 26) | **₱713,172,927** | ₱505,343,577 |
| Short-term investments (Note 6) | **6,676,819** | 6,676,819 |
| Trade and other receivables (Note 7) | **465,607,152** | 544,968,864 |
| Non-current asset held-for-sale (Note 12) | – | 4,963,900 |
| Finance lease receivable (Note 24) | – | 2,838,714 |
| Other current assets (Note 8) | **33,238,113** | 32,271,510 |
| | **1,218,695,011** | 1,097,063,384 |
| **Noncurrent Assets** | | |
| Financial assets at fair value through other comprehensive income (Note 9) | **8,814,010** | 8,814,010 |
| Property and equipment (Note 10) | **38,925,648** | 42,298,810 |
| Intangible assets (Note 11) | **469,177** | 5,670,448 |
| Investment in an associate (Note 13) | **23,675,552** | 25,985,850 |
| Net retirement asset (Note 23) | **38,513,179** | 45,941,196 |
| Right-of-use assets (Note 24) | **23,482,109** | 42,529,473 |
| Deferred tax assets (Note 25) | **9,789,126** | 14,976,758 |
| Other noncurrent assets (Note 14) | **13,072,180** | 14,865,098 |
| | **156,740,981** | 201,081,643 |
| | **₱1,375,435,992** | ₱1,298,145,027 |

| | | |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 16) | **₱321,428,077** | ₱282,738,900 |
| Contract liability (Note 17) | **5,230,970** | – |
| Lease liabilities (Note 24) | **15,183,665** | 28,408,570 |
| Income tax payable (Note 25) | **2,550,191** | 2,702,330 |
| | **344,392,903** | 313,849,800 |
| **Noncurrent Liabilities** | | |
| Contract liability, net of current portion (Note 17) | **30,349,630** | – |
| Lease liabilities, net of current portion (Note 24) | **7,687,488** | 16,335,016 |
| | **38,037,117** | 16,335,016 |
| | **382,430,020** | 330,184,816 |
| **Equity** | | |
| Capital stock (Note 20) | **482,615,200** | 482,615,200 |
| Paid-in capital in excess of par value | **377,385,063** | 377,385,063 |
| Retained earnings | **79,153,441** | 52,578,121 |
| Fair value reserve on financial asset at fair value through other comprehensive income (Note 9) | **(8,814,011)** | (8,814,011) |
| Remeasurement gain on net retirement asset (Note 23) | **62,666,278** | 64,195,838 |
| | **993,005,971** | 967,960,211 |
| | **₱1,375,435,992** | ₱1,298,145,027 |

*See accompanying Notes to Financial Statements.*

**PETNET, INC.**

## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **REVENUES** (Note 21) | **₱599,881,523** | ₱613,603,861 |
| **COST OF SERVICES** (Note 21) | **289,440,855** | 347,763,837 |
| **GROSS PROFIT** | **310,440,668** | 265,840,024 |
| **OTHER OPERATING INCOME** (Note 22) | **1,801,593** | 3,746,377 |
| **OTHER OPERATING EXPENSES** | | |
| Salaries and wages | **81,920,028** | 84,004,780 |
| Depreciation and amortization (Note 22) | **21,027,712** | 31,677,355 |
| Travel and transportation | **28,444,017** | 33,277,627 |
| Incentive expense | **21,045,262** | 11,004,670 |
| Unrealized foreign exchange loss | **16,641,645** | 13,426,923 |
| Light and water | **14,664,092** | 22,589,966 |
| Taxes and licenses | **10,992,238** | 12,764,565 |
| Computer network system | **10,938,905** | 9,828,452 |
| Professional fees | **7,083,405** | 5,145,884 |
| Office rental (Note 24) | **6,572,459** | – |
| Loss on disposal of investment in a subsidiary classified as non-current held-for-sale (Note 12) | **4,963,900** | – |
| Office supplies | **4,715,724** | 8,922,729 |
| Marketing expense | **3,865,951** | 4,658,957 |
| Repairs and maintenance | **3,657,923** | 5,976,790 |
| Trainings, seminars and conferences | **349,754** | 3,467,453 |
| Others (Notes 15 and 22) | **14,998,104** | 24,739,336 |
| | **251,881,119** | 271,485,487 |
| **OPERATING INCOME (LOSS)** | **60,361,142** | (1,899,086) |
| **FINANCE INCOME (COSTS)** | | |
| Interest income (Notes 6) | **2,085,314** | 2,405,400 |
| Interest expense (Notes 18 and 24) | **(16,937,230)** | (14,466,259) |
| | **(14,851,916)** | (12,060,859) |
| **INCOME (LOSS) BEFORE SHARE IN NET LOSSES OF SUBSIDIARY AND ASSOCIATE** | **45,509,226** | (13,959,945) |
| **SHARE IN NET LOSSES OF SUBSIDIARY AND ASSOCIATE** (Notes 13) | **(2,310,299)** | (12,337,466) |
| **INCOME (LOSS) BEFORE INCOME TAX** | **43,198,927** | (26,297,411) |
| **PROVISION FOR (BENEFIT FROM) INCOME TAX** (Note 24) | **16,623,607** | (4,055,327) |
| **NET INCOME (LOSS)** | **26,575,320** | (22,242,084) |
| **OTHER COMPREHENSIVE LOSS** | | |
| *Not to be reclassified to profit or loss in subsequent periods:* | | |
| Remeasurement losses on net retirement asset (Note 23) | **(2,185,085)** | (19,872,742) |
| Income tax effect | **655,525** | 5,961,823 |
| | **(1,529,560)** | (13,910,919) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱25,045,760** | (₱36,153,003) |

*See accompanying Notes to Financial Statements.*

## PETNET, INC.
## STATEMENTS OF CHANGES IN EQUITY

| | Capital Stock (Note 20) | Paid-in Capital in Excess of Par Value (Note 20) | Retained Earnings | Fair Value Reserve on Financial Asset at Fair Value through Other Comprehensive Income (Note 9) | Remeasurement Gains (Losses) on net Retirement Asset (Note 23) | Total Equity |
|---|---|---|---|---|---|---|
| **Balances at January 1, 2020** | **₱482,615,200** | **₱377,385,063** | **₱52,578,121** | **(₱8,814,011)** | **₱64,195,838** | **₱967,960,211** |
| Net income | – | – | **26,575,320** | – | – | **26,575,320** |
| Other comprehensive loss | – | – | – | – | **(1,529,560)** | **(1,529,560)** |
| Total comprehensive income (loss) | – | – | **26,575,320** | – | **(1,529,560)** | **25,045,760** |
| **Balances at December 31, 2020** | **₱482,615,200** | **₱377,385,063** | **₱79,153,441** | **(₱8,814,011)** | **₱62,666,278** | **₱993,005,971** |
| Balances at January 1, 2019 | ₱482,615,200 | ₱377,385,063 | ₱74,820,205 | (₱8,814,011) | ₱78,106,757 | ₱1,004,113,214 |
| Net loss | – | – | (22,242,084) | – | – | (22,242,084) |
| Other comprehensive loss | – | – | – | – | (13,910,919) | (13,910,919) |
| Total comprehensive loss | – | – | (22,242,084) | – | (13,910,919) | (36,153,003) |
| Balances at December 31, 2019 | ₱482,615,200 | ₱377,385,063 | ₱52,578,121 | (₱8,814,011) | ₱64,195,838 | ₱967,960,211 |

*See accompanying Notes to Financial Statements.*

# PETNET, INC.
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income (loss) before income tax | **₱43,198,927** | (₱26,297,411) |
| Adjustments for: | | |
| Depreciation and amortization (Notes 10, 22 and 24) | **44,990,794** | 51,957,972 |
| Interest expense (Notes 18 and 24) | **16,937,230** | 14,466,259 |
| Unrealized foreign exchange loss | **16,641,645** | 13,426,923 |
| Movement in net retirement asset | **5,242,932** | 7,622,900 |
| Loss on disposal of investment in a subsidiary classified as noncurrent asset held-for-sale (Note 12) | **4,963,900** | – |
| Interest income (Notes 6 and 26) | **(2,085,314)** | (2,405,400) |
| Share in net loss of a subsidiary and associate (Note 13) | **2,310,298** | 12,337,466 |
| Gain on sale of property and equipment (Notes 10 and 22) | **(110,153)** | (437,943) |
| Gain on pre-termination of lease contracts (Note 24) | **(76,637)** | – |
| Operating income before changes in operating assets and liabilities | **132,013,622** | 70,670,766 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Trade and other receivables | **79,361,712** | (98,238,665) |
| Other current assets | **(966,603)** | 5,944,175 |
| Other noncurrent assets | **1,792,918** | 16,072,900 |
| Increase in: | | |
| Trade and other payables | **38,689,177** | 23,699,193 |
| Contract liability | **35,580,600** | – |
| Net cash provided by operations | **286,471,426** | 18,148,369 |
| Interest paid | **(16,937,230)** | (14,466,259) |
| Income taxes paid | **(10,932,589)** | (4,223,872) |
| Interest received (Notes 6 and 26) | **2,085,314** | 2,279,490 |
| Net cash provided by operating activities | **260,686,921** | 1,737,728 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisitions of: | | |
| Property and equipment (Note 10) | **(9,186,636)** | (14,012,405) |
| Intangible assets (Note 11) | **–** | (516,000) |
| Collection of finance lease receivable (Note 26) | **2,838,714** | 2,770,730 |
| Proceeds from sale/disposal of property and equipment | **575,584** | 1,184,222 |
| Placements in short-term investments | **–** | (4,000,000) |
| Net cash used in investing activities | **(5,772,339)** | (14,573,453) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from loans | **3,757,811,000** | 3,399,138,500 |
| Settlement of loans | **(3,739,865,500)** | (3,426,766,000) |
| Payment of principal portion of lease liabilities (Note 24) | **(30,443,587)** | (33,173,531) |
| Net cash used in financing activities | **(12,498,087)** | (60,801,031) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **242,416,495** | (73,636,756) |
| **EFFECT OF FOREIGN EXCHANGE DIFFERENCES ON CASH AND CASH EQUIVALENTS** | **(34,587,145)** | (22,605,423) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **505,343,577** | 601,585,756 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱713,172,927** | ₱505,343,577 |

*See accompanying Notes to Financial Statements.*

## 1. General Information

PETNET, Inc. (the Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on August 12, 1998.

Its primary purpose is to engage in the business of remittance, transferring or transmitting money on behalf of any person to another person and/or entity, and in relation thereto, act as money changer/foreign exchange dealer or engage in the business of buying and/or selling foreign currencies, and manage, buy, sell, lease, own, and operate all types of merchandise, equipment, facilities and/or service, and engage in such other businesses, as may be necessary to accomplish the purpose for which the Company has been established, in accordance with laws and prevailing Bangko Sentral ng Pilipinas (BSP) rules and regulations. Provided, that the foreign exchange currency transactions of the Company shall be limited to ordinary money changing activity or 'spot' foreign currency transactions. Provided further, that the Company shall not engage in the business of being a commodity swaps, broker or otherwise engage in financial derivatives activities such as foreign currency swaps, forwards, options or other similar instruments as defined under BSP Circular No. 102, Series of 1995.

As of December 31, 2020 and 2019, the Company has a total company-owned branches of 204 and 244, respectively, and third-party business partners totaling 209 and 252, respectively.

*Acquisition of the Company by City Savings Bank, Inc. (CSB) and Union Investment Corp. (UIC)*
On December 17, 2018, Union Bank of the Philippines (UBP) acquired 51% ownership interest in the Company through its subsidiaries, CSB and UIC, representing 40% and 11% ownership interests in the Company, for a total consideration of ₱258.82 million. As of December 31, 2020 and 2019, the Company's parent company is UBP.

The Company's registered address and principal place of business is at East Offices Building, 114 Aguirre Street, Legaspi Village, Makati City.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for equity investments which have been measured at fair value. The financial statements are presented in Philippine Peso (₱), which is the Company's functional currency. All amounts are recorded to the nearest Peso unless otherwise indicated.

The Company has elected not to prepare consolidated financial statements. The Company availed the exemptions from preparing the consolidated financial statements on the basis that UBP, the Company's Parent Company, publishes financial statements that are available for public use and comply with PFRS. The consolidated financial statements of UBP can be obtained from the SEC and at the Parent Company's principal place of business, Union Bank Plaza, Meralco Avenue corner Onyx Street and Sapphire Road, Ortigas Center, Pasig City.

The accounts are the Company's separate financial statements in accordance with Philippine Accounting Standards (PAS) 27, *Separate Financial Statements*.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted by the Company are consistent with those of the previous financial year, except for the following amended PFRS, PAS and Philippine Interpretations which the Company applied for the first time, which are effective for annual periods beginning on or after January 1, 2020. The adoption of these amendments did not have any significant impact on the financial statements, except as otherwise stated.

*Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*
  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Company enters into any business combinations.

- Amendments to PFRS 7, *Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*
  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
  The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

  The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Conceptual Framework for Financial Reporting issued on March 29, 2018
  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, COVID-19-related Rent Concessions
  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before
  - June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

**Significant Accounting Policies**

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

- 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 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. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly
- Level 3 - inputs are unobservable inputs for the asset or liability

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

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

Foreign Currency Translation

*Transactions and balances*

Foreign currency-denominated monetary assets and liabilities are translated in closing rate prevailing at the reporting date while foreign currency-denominated income and expenses are translated using the weighted average rate for the year. Foreign exchange gains or losses arising from foreign currency transactions and revaluation of foreign currency-denominated assets and liabilities are credited to or charged against profit or loss in the year in which the rates change.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid instruments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Short-term Investments

Short term investments include short-term cash placements that are convertible to known amounts of cash with original maturities of more than three months.

Financial Instruments - Initial Recognition and Subsequent Measurement

*Date of recognition*

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial recognition of financial instruments*

All financial instruments are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs.

*'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Classification and subsequent measurement of financial instruments

*Classification of financial assets*
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing financial assets. The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and financial assets measured at amortized cost (AC).

*Contractual cash flows characteristics*
The Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments with cash flows that do not represent as such are classified at FVTPL.

In making this assessment, the Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

*Business model*
The Company's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its group of financial assets in order to generate cash flows (i.e. collecting contractual cash flows, selling financial assets or both).

Relevant factors considered by the Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel. The Company also considers the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers, if any, of the business are compensated.

As of December 31, 2020 and 2019, based on the results of the contractual cash flows characteristic and business model assessment, the Company classified its debt financial assets at amortized cost.

*Financial assets at amortized cost*
A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) 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. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest Income' in the profit or loss and is calculated by applying the EIR to the gross carrying amount of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' under 'Other expenses' in profit or loss. The Company's financial assets at amortized cost consist of 'Cash and cash equivalents', 'Short-term investments', 'Trade and other receivables' and 'Rental deposits'.

*Financial assets at fair value through other comprehensive income (FVOCI)*
The Company may make an irrevocable election to measure at FVOCI on initial recognition with investments in equity instruments that are not held for trading. Amounts recognized in other comprehensive income (OCI) are not subsequently transferred to profit or loss. Dividends on such

investments are recognized in profit or loss, unless the dividend clearly represents recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:
- the Company's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

As of December 31, 2020 and 2019, the Company has designated its investment in unquoted equity as financial assets at FVOCI.

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

*Financial liabilities at amortized cost*
Issued financial instruments or their components, which are not designated at FVPL, are classified as financial liabilities at amortized cost which include 'Trade and other payables' and 'Loans payable', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Assets and Liabilities</u>
*Financial asset*
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired; or
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control over the asset.

*Financial liability*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

<u>Impairment of Financial Assets</u>
PFRS 9 requires the Company to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

*Expected credit loss methodology*
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of the financial asset.

*Definition of "default"*
The Company defines a financial instrument as in default in all cases when the counterparty becomes over 90 days past due on its contractual payments. As a part of the qualitative assessment of whether a counterparty is in default, the Company also considers a variety of instances that may indicate objective evidence of impairment, such as significant problems in the operations of the customers and bankruptcy of the counterparties.

*Significant increase in credit risk (SICR)*
The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's aging information, the counterparty becomes past due for over 30 days. Further, the Company assumes that the credit risk of a financial asset, particularly on cash and equivalents and short-term investments, has not increased significantly since origination if the financial asset is determined to have "low credit risk" as of the reporting date. A financial asset is considered "low credit risk" when it has an external rating equivalent to "investment grade".

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the Company shall revert to recognizing a 12-month ECL.

*Staging assessment*
For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired debt financial assets which have not experienced a SICR since initial recognition. The Company recognizes a 12-month ECL for Stage 1 debt financial assets.
- Stage 2 is comprised of all non-impaired debt financial assets which have experienced a SICR since initial recognition. The Company recognizes a lifetime ECL for Stage 2 debt financial assets.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment.

*ECL parameters and methodologies*
For financial assets such as "Trade receivables", the Company applied the simplified approach in calculating the ECL which does not require tracking of changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL as of the reporting date. The Company determines impairment using a provision matrix that considers historical experience, adjusted for forward looking inputs and assumptions. For 'Cash and cash equivalents', 'Short-term investments' and other financial assets, the Company applied the general approach in measuring ECL that considers assessment of significant increase in credit risk and adjustments for forward-looking information.

*Forward looking information*
A range of economic overlays are considered, and expert credit judgment is applied in determining the forward-looking inputs to the ECL calculation.

*Write-offs*
Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. Any subsequent recoveries are credited to “Provision for credit and impairment losses” in profit or loss.

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

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties, which include transportation equipment, furniture, fixtures and equipment, leasehold improvements and building, are stated at cost less accumulated depreciation and amortization, and any accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are charged against income in the year in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment losses are removed from the accounts, and any resulting gain or loss from disposal is reflected as income or loss in profit or loss.

Depreciation and amortization are calculated on the straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the shorter between the lease terms taking into consideration the expected renewal of leases and the estimated useful lives of the improvements.

The range of estimated useful lives of depreciable property and equipment follows:

| | |
|---|---|
| Transportation equipment | 5 years |
| Furniture, fixtures and equipment | 2 years |
| Leasehold improvements | 3 year or the term of the related leases, whichever is shorter |
| Building | 25 years |

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

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

Intangible Assets
Intangible assets acquired separately from or developed by third parties are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The Company's intangible assets consist of computer software, which assessed to have finite useful lives.

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

The Company's computer software has an estimated useful life of three (3) years.

Investments in Subsidiary and Associate
Investments in subsidiary and associate in the Company's financial statements are accounted for under the equity method.

Under the equity method, these investments are carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of the net assets of the subsidiary and associate. Post-acquisition changes in the share of net assets of the subsidiary and associate include the share in the: (a) income or losses; and (b) other comprehensive. Dividends received are treated as a reduction in the carrying amounts of the investments. When there has been change recognized directly in the equity of the subsidiary and/or associate, the Company recognizes its share of any changes, and thus, when applicable, in the statement of changes in equity. If the Company's share of losses in a subsidiary or an associate equal or exceeds its interest in the subsidiary or associate, the Company discontinues recognizing its share in further losses. Unrealized gains and losses resulting from transactions between the Company and the subsidiary and/or associate are eliminated to the extent of the interest in the associate.

Investments in subsidiary and associate is subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

Non-current Asset Held-for-Sale
A non-current asset is classified as held-for-sale if the carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, (a) the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, (b) its sale must be highly probable and (c) it must be genuinely sold, not abandoned.

Non-current asset held-for-sale is measured at the lower of its carrying amount and fair value less costs to sell.

Leases

*Company as a lessee*

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

(a) *Right-of-use (ROU) assets*

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follow:

| | |
|---|---|
| Office premises | 2-5 years |
| Transportation equipment | 5 years |

Depreciation of ROU asset is presented under “Depreciation and amortization” in the statement of income.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

(b) *Lease liabilities*

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (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 Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if 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, presented under “Interest expense”, 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.

(c) *Short-term leases*
The Company applies the short-term lease recognition exemption to its short-term leases of office premises (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

*Company as a lessor*
The Company classifies a lease as finance lease if it transfers substantially all the risks and rewards incidental to ownership of asset arising from the lease, having considered the any of the following criteria:
- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset; and
- The asset is of such a specialized nature that only the lessee can use it without major modifications.

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

The Company also entered into arrangements to sublease the leased assets to its related parties while the original lease is in effect. In these arrangements, the Company acts as both the lessee and lessor of the same underlying asset. The original lease is often referred to as a head lease, the original lessee is often referred to as an intermediate lessor or sub-lessor and the ultimate lessee is often referred to as the sub-lessee.

In classifying a sublease, the intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows: (i) if the head lease is a short-term lease that the Company, as a lessee, has accounted for, the sublease shall be classified as an operating lease; (ii) otherwise, the sublease shall be classified by reference to the right-of-use asset arising from the head lease and by reference to the underlying asset.

If the sublease is classified as a finance lease, the Company, the original lessee, derecognizes the right-of-use asset on the head lease at the sublease commencement date and recognizes the net investment in the sublease. The Company recognizes any difference between the right-of-use asset and the net investment in sublease in the profit or loss. The Company, the original lessee, continues to account for the original lease liability in accordance with the lessee accounting model. Refer to policy on *Lease liabilities* above. The Company, as the sublessor, evaluates the net investment in sublease for impairment. Refer to policy on *Impairment of financial assets* above.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. The Company, the intermediate lessor retains the lease liability and the right-of-use asset relating to the head lease in its statement of financial position. Refer to policy on *Right-of-use asset* and *Lease liabilities* above. The Company recognizes income from the sublease.

Impairment of Nonfinancial Assets

*Property and equipment, intangible assets with finite lives, investment in subsidiary and associate*

At each statement of financial position date, the Company assesses whether there is any indication that its assets may be impaired. When an indication of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of the assets' 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 to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

An impairment loss is charged to operations in the year in which it arises. An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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. The 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 profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization 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.

Equity

Issued capital stock is measured at par value for all shares issued and outstanding. Subscribed capital stock is the portion of the authorized capital stock that has been subscribed but not yet fully paid and therefore still unissued. The subscribed capital stock is reported in equity less the related subscription receivable not collectible currently. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Paid-in capital in excess of par value' account.

Retained Earnings

The amount included in retained earnings represents the accumulated net profits or losses attributable to the Company's equity holders and reduced by dividends on capital stock.

Dividends on Common Shares

Dividends are declared and paid out of the unrestricted retained earnings which is payable in cash, property or stock to all stockholders on the basis of outstanding stock held by the stockholder, as often and at such times as the Board of Directors (BOD) may determine and in accordance with law. Retained earnings available for dividend declaration is adjusted to exclude unrealized income, declared dividends, appropriations and deferred tax, and to include unrealized losses and effects of prior period adjustments, if any. Dividends declared and approved after the statement of financial position dates are dealt with as an event after the reporting date.

Revenue from contracts with customers
The Company is in the business of providing remittance services, processing of teachers, pension and motorcycle loans, foreign exchange currency transactions and services under the Company's added-value products. Except for foreign exchange currency trading transactions, these services are within the scope of PFRS 15, *Revenue from contracts with customers*.

To account for the revenues arising from contracts with customers, the Company applies the following five step model.

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

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

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

*Revenue on remittance services*
Revenues include commission income and share in the foreign exchange differential from remittance transactions. The Company concluded that it is acting as the principal, where Western Union and other remittance partners are its customers on these remittance services . The Company is providing to Western Union and other remittance partners a series of distinct services that are substantially the same and have the same pattern of transfer. Accordingly, the revenue on remittance services is recognized over time. The normal credit term is one (1) day.

In 2020, the Company also received a non-refundable bonus from Western Union upon renewal of their agreement. The Company assessed that its promise to Western Union is to provide money transfer services. Accordingly, the revenue is recognized over time, i.e. based on output method over the contract period. The deferred portion of non-refundable bonus is presented as "Contract liability" (see policy on Contract balances).

*Service fees on processing of teachers, pension and motorcycle loans*
The Company concluded that it is acting as principal in the arrangement with CSB to process applications of teachers, pension and motorcycle loans. The service fees are recognized point-in-time, i.e. upon confirmation of the approval of the loan applications. The normal credit term is fifteen (15) days from invoice date.

*Revenue on added-value products*
The Company assessed that it is acting as agent in its arrangements on added-value products with its principals. The Company is providing a series of distinct services, like airline ticketing, outsourced payment collection and processing of cash credits, which are substantially the same and have the same pattern of transfer. Accordingly, revenues are recognized over time. The normal credit term is one (1) day.

Revenue from sale of electronic load is recognized at the point in time, when the electronic load is delivered to and accepted by the customer.

Contract balances

*Trade receivables*
A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in *Financial instruments – initial recognition and subsequent measurement.*

*Contract liabilities*
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the 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 Company fulfills the performance obligations under the contract.

Consideration payable to the customer
Consideration payable to the customer includes cash amounts that the Company pays, or expects to pay, to the customer. The consideration payable to the customer is accounted for as reduction of the transaction price unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Company.

Common country fund contributions paid by the Company to Western Union is a consideration payable to the customer, and accordingly, accounted for as reduction in the revenue on remittance services.

Revenue recognition (outside the scope of PFRS 15)
The following specific recognition criteria must be met before revenue is recognized.

*Revenue on foreign exchange currency transactions*
Revenue from realized foreign exchange pertains primarily to the revenues from the Company's ordinary money changing activities and spot trading foreign currency transactions. The revenue is recognized when trading, or exchange is completed, and foreign currency-denominated accounts are converted to Philippine Peso.

*Interest income*
Interest income on cash and cash equivalents is recognized on a time proportion basis as it accrues using the effective interest rate method.

*Rental income*
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and included in other operating income.

Expense Recognition
Expenses are recognized when it is probable that decrease in future economic benefits related to decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Company include among others the operating expenses on the Company's operations.

*Cost of services*
Cost of services are incurred in the normal course of business and is recognized when incurred. This comprises of direct costs such as commission expense, salaries and wages, rental and postage and telephone which are incurred in the period when services are rendered.

Defined Benefit Plan
The Company has a funded, noncontributory defined benefit plan administered by a trustee. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as age, years of service and compensation.

The retirement cost of the Company is actuarially determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

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 plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- 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 profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in the OCI account 'Remeasurement gain (loss) on net retirement asset' are not classified to another equity account in subsequent periods.

When a plan amendment, curtailment or settlement occurs during the annual reporting period, the amendments to PAS 19 specify that an entity must:

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

Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Income Taxes

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Provision for income tax is recognized in profit or loss.

*Current tax*

Current tax assets and liabilities for the current and prior 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 of the statement of financial position date.

*Deferred tax*

Deferred tax is provided or recognized in full using the balance sheet - liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax asset is recognized for all deductible temporary differences, carryforward of unused tax credits from excess 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 sufficient future taxable income will be available against which the deductible temporary differences and carryforward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in profit or loss.

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

Value-added tax (VAT)
The input VAT pertains to the 12.00% indirect tax paid by the Company in the course of the Company's trade or business on local purchase of goods or services.

Output VAT pertains to the 12.00% tax due on the local sale of goods or services by the Company If, at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under 'Trade and other payables' account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under 'Other current assets' account.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

An onerous contract is a contract under which an unavoidable cost (i.e., the costs that the Company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. If the Company has a contract that is onerous, the present obligation under the contract is recognized and measured as a provision.

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

Events After the Reporting Date
Post year-end event that provide additional information about the Company's position at the reporting date (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed in the notes to the financial statements when material.

Future Changes in Accounting Policies
Standards or interpretations issued but are not effective as of December 31, 2020 are listed below. This is a listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards and interpretations 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*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component
  - The Company shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

These amendments are not relevant to the Company.

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine-IFRIC 21, Levies, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively. The amendments are not relevant to the Company.

- Amendments to PAS 16 , *Plant and Equipment: Proceeds before Intended Use*
  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The amendments are not expected to have a material impact on the Company.

- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *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*
    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

    An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Company.

    The amendments are not relevant to the Company.

*Effective beginning on or after January 1, 2023*

- The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right

- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice.

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

The Company is not engaged in insurance business and accordingly, the new standard is not relevant to the Company.

*Deferred effectivity*

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

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

The amendments are not expected to have a material impact on the Company.

3. **Significant Accounting Judgments and Estimates**

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

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

Judgments

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

(a) *Determining the timing of satisfaction of performance obligations and measurement of progress*
Assessing when the Company satisfies a performance obligation, i.e. transfer control of a promised good or service to the customer, over time or point-in-time involves significant judgment. Accordingly, it affects the timing of revenue recognition for these performance obligations.

Based on management's assessment, performance obligations related to remittance services and services under the Company's added-value products (except for retail sale of electronic load) are series of distinct services that are satisfied over time. As the Company renders the services, the customers simultaneously receive and consume the benefits provided by the Company's performance of these services.

In measuring the revenue to be recognized over time, management assessed that output method faithfully depicts the Company's performance in transferring control of the services to the customers. Since the Company bills a fixed price per transaction with the customers upon satisfaction of the performance obligations, management believes that this right to consideration from a customer corresponds directly with the value to the customer of the Company's performance completed to date. Accordingly, the Company has applied the "right to invoice" practical expedient in measuring the revenue recognized over time.

With respect to the non-refundable bonus received from Western Union, the measure of progress is based on the actual remittance transactions processed to date as a percentage of the total reasonably estimated remittance transactions to be processed over the contract period. This method of measuring progress faithfully depicts the transfer of remittance services to Western Union, as the agreed commission rates with Western Union are pegged on the volume of the transactions.

With respect to the performance obligations related to processing of teachers, pension and motorcycle loans, the Company assessed that control is transferred when the customer accepted the asset (i.e. CSB approved the loan application) and the Company has the present right to payment for the asset.

*(b) Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

The Company determines that its functional currency is in Philippine Peso and it is based on the economic substance of underlying circumstances relevant to the Company. The Company's performance is being evaluated in Philippine Peso and U.S. Dollars. In the existence of mixed indications of functional currency, the Company considers the following:

- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Estimates
The key assumptions concerning the future and other key sources of estimation uncertainty at the 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:

*(a) Revenue recognition of non-refundable bonus*
The Company received from Western Union a non-refundable bonus representing advance payment in consideration of the Company continuing to offer money transfer services in the Philippines over a contract period. In recognizing revenue, the Company uses the output method based on the actual remittance transactions processed to date as a percentage of the total reasonably estimated remittance transactions to be processed over the contract period. The Company quantitatively and qualitatively considers information about historical experience, industry outlook and specification business plans in estimating the total remittance transactions over the contract period.

The details of the recognized revenue and the carrying value of the deferred portion of the bonus, presented under "Contract liability" are disclosed in Note 17.

*(b) Impairment assessment of investment in associate*
The Company assesses impairment on investment in associate whenever events or changes in the circumstances indicate that the carrying value of the investment may not be recoverable. The Company considers the following factors which could trigger an impairment review:

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

Due to the Covid-19 outbreak and the government-imposed lockdowns and travel bans which consequently reduced the number of tourists-customers using the payment app services, Banana Fintech Services Corp. ("BFSC"), its associate, suffered from lost revenues and incurred net losses in 2020. The Company concluded that an impairment indicator exists and therefore, the Company performed impairment calculation.

Impairment exists when the carrying value of the investment in associate exceeds its recoverable amount. The Company determines the recoverable amount based on its value in use (VIU). The VIU calculation is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the investment being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used to extrapolate cash flows beyond the five-year financial projection. Given the inherent level of uncertainty of the current environment due to Covid-19 pandemic and the increased sensitivity of these judgments and assumptions, future events could cause the Company to conclude that investment in associate is impaired. Any resulting loss could have a material impact on the financial statements.

The carrying amount of the investment in associate is disclosed in Note 13.

(c) *Estimation of retirement benefits*
The cost of defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future increases in salary consider inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market for the specific country.

The details of the assumptions used and the carrying value of the net retirement asset as of December 31, 2020 and 2019 are disclosed in Note 23.

(d) *Impairment of input VAT*
The Company has filed several applications with the Bureau of Internal Revenue for tax refunds or conversion to tax credit certificates of its input VAT. The Company maintains allowance for credit and impairment losses at a level considered adequate to provide for potential unrecoverable amounts. The level of this allowance is evaluated by management based on experience and other factors that affect the recoverability of the accounts, such as the current status of its claims with the tax authority.

The carrying value of input VAT as of December 31, 2020 and 2019 is disclosed in Note 8.

## 4. **Fair Value Measurement**

The Company uses the following hierarchy in determining and disclosing the fair value of financial and non-financial instruments by valuation technique:

Level 1: quoted (unadjusted prices) in active markets for identical assets and liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following describes the methodologies and assumptions used to determine the fair values of financial and non-financial instruments:

*Cash and cash equivalents, short-term investments, trade and other receivables, finance lease receivable, trade and other payables, finance lease payable and loans payable*
As of December 31, 2020 and 2019, the carrying amounts approximate fair values due to the relatively short-term maturities of these financial assets and liabilities.

*Unquoted equity securities*
As of December 31, 2020 and 2019, management assessed that the carrying amount of the investment approximates its fair value.

*Lease liabilities*
As of December 31, 2020 and 2019, the lease liabilities with carrying amounts of ₱22.87 million and ₱44.73 million have fair values of ₱22.98 million and ₱45.58 million, respectively. The fair value of the lease liabilities is determined using the discounted cash flow methodology using market interest rate and entity-specific adjustment. The fair value of the lease liabilities is under Level 3 in the hierarchy.

In 2020 and 2019, there were no transfers made between levels in the fair value hierarchy.

## 5. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents, short-term investments, trade and other receivables, investment in unquoted equity securities, rental deposits, trade and other payables and loans payable.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk. The Company's management reviews and approves policies for managing each of these risks and they are summarized below:

Credit Risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur financial loss. The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of the financial asset.

*Maximum exposure to credit risk and collaterals and other credit enhancements*
The Company's credit risk is primarily attributable to cash and cash equivalents, short-term investments and trade and other receivables. The Company accredits only recognized and credit worthy sub-agents. It is the Company's policy to subject all sub-agents to credit verification procedures. Generally, the Company continuously monitors the financial health and status of its counterparties to ascertain that receivables from these counterparties will be substantially collected on due date. Credit risk on receivables is assessed on an ongoing basis.

The maximum exposure to credit risks equals the carrying values of financial assets. The Company has no collaterals held and other credit enhancements.

*Risk concentration of the maximum exposure to 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. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

As of December 31, 2020 and 2019, the Company's financial assets by counterparties are banks and financial institutions composed of Western Union, various banks, remittance partners, sub-agents and CSB.

As of December 31, 2020 and 2019, the Company's risk concentration by industry, based on their carrying values is shown below:

| | **2020** | 2019 |
|---|---|---|
| **Concentration by industry** | | |
| Financial institutions* | **₱971,341,503** | ₱910,872,660 |
| Real Estate | **10,417,258** | 13,809,210 |
| Others** | **41,891,645** | 38,416,390 |
| | **1,023,650,406** | 963,098,260 |
| Less: Allowance for credit losses (Note 15) | **4,387,761** | 4,387,761 |
| | **₱1,019,262,645** | ₱958,710,499 |

**Financial institutions consist of banks, remittance partners and insurance companies*
***Others consists of transportation, courier, and other business processes*

*Credit quality per class of financial assets*
The Company classifies the credit quality of its financial assets as performing and non-performing.

The Company's bases in rating its financial assets follow:

*Performing*
High grade - these are financial assets which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation.

Standard grade - these are financial assets wherein the counterparty has low probability of default and could withstand normal business cycle.

Past due but not impaired - these are financial assets that are long outstanding but are assessed to be collectible.

*Nonperforming*
Impaired –financial assets for which the Company determines that it is probable that it will not be able to collect portion of the principal and interest due based on the contractual terms of the receivables.

The table below shows the credit quality of the Company's financial assets based on its stage classification as of December 31, 2020 and 2019. The amounts presented are gross of impairment allowances.

| | **December 31, 2020** | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **Cash in bank, cash equivalents and short-term investments** | | | | |
| **Performing** | | | | |
| High grade | **₱541,584,135** | **₱–** | **₱–** | **₱541,584,135** |
| Standard grade | – | – | – | – |
| Past due but not impaired | – | – | – | – |
| **Nonperforming** | | | | |
| Impaired | – | – | – | – |
| | **541,584,135** | – | – | **541,584,135** |
| **Rental deposits and other receivables*** | | | | |
| **Performing** | | | | |
| High grade | – | – | – | – |
| Standard grade | **13,742,677** | – | – | **13,742,677** |
| Past due but not impaired | **501,599** | – | – | **501,599** |
| **Nonperforming** | | | | |
| Impaired | – | – | **4,387,761** | **4,387,761** |
| | **14,244,276** | – | **4,387,761** | **18,632,037** |
| | **₱555,828,411** | **₱–** | **₱4,387,761** | **₱555,828,411** |

*These include the non-current portions of advances to officers and employees amounting to ₱1.65 million.*

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Cash in bank, cash equivalents and short-term investments | | | | |
| Performing | | | | |
| High grade | ₱397,749,054 | ₱– | ₱– | ₱397,749,054 |
| Standard grade | – | – | – | – |
| Past due but not impaired | – | – | – | – |
| Nonperforming | | | | |
| Impaired | – | – | – | – |
| | 397,749,054 | – | – | 397,749,054 |
| Finance lease receivables, rental deposits and other receivables* | – | | | |
| Performing | – | | | |
| High grade | – | – | – | – |
| Standard grade | 18,824,879 | – | – | 18,824,879 |
| Past due but not impaired | – | – | – | – |
| Nonperforming | | | | |
| Impaired | – | – | 4,387,761 | 4,387,761 |
| | 18,824,879 | – | 4,387,761 | 23,212,640 |
| | ₱416,573,933 | ₱– | ₱4,387,761 | ₱420,961,694 |

*These include the non-current portions of advances to officers and employees amounting to ₱2.18 million.*

There are no movements or transfers among the stage classifications in 2020 and 2019.

The Company uses the simplified approach in measuring the lifetime ECL for trade receivable. The ECL is assessed using historical experience based on days past due, adjusted for the current conditions and forecasts of future economic conditions. As of December 31, 2020 and 2019, the Company's trade receivables are all current and the impact of any forward-looking information is not significant. The Company assessed that ECL for trade receivable is not material.

Liquidity Risk

Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet or settle its obligations.

The Company maintains sufficient cash to meet operating capital requirements. The Company aims to maintain flexibility in funding by carefully monitoring scheduled payments of its liabilities and the efficient collection of receivables, as well as cash outflows due in day-to-day business.

The table below shows the maturity profile of the Company's financial assets and financial liabilities based on the remaining contractual maturities:

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **On Demand** | **Up to 1 Month** | **Over 1 to 3 Months** | **Over 3 to 6 Months** | **Over 6 to 12 Months** | **Beyond 1 Year** | **Total** |
| **Financial Assets** | | | | | | | |
| Cash and cash equivalents* | **₱712,793,268** | **₱–** | **₱388,431** | **₱–** | **₱–** | **₱–** | **₱713,181,699** |
| Short-term investments* | **–** | **–** | **2,562,065** | **–** | **4,203,617** | **–** | **6,765,682** |
| Trade and other receivables | **426,737,170** | **37,198,666** | **–** | **–** | **–** | **–** | **463,935,836** |
| Advances to officers and employees | **–** | **177,674** | **351,351** | **441,253** | **701,038** | **1,654,100** | **3,325,416** |
| Equity investment at FVOCI | **–** | **–** | **–** | **–** | **–** | **8,814,010** | **8,814,010** |
| Rental deposits | **–** | **–** | **–** | **–** | **–** | **10,417,261** | **10,417,261** |
| | **1,139,530,438** | **37,376,340** | **3,301,847** | **441,253** | **4,904,655** | **20,885,371** | **1,206,439,904** |
| **Financial Liabilities** | | | | | | | |
| Trade and other payables** | **303,786,588** | **–** | **–** | **–** | **–** | **–** | **303,786,588** |
| Lease liability* | **–** | **1,308,228** | **2,616,456** | **3,924,685** | **7,849,370** | **7,948,801** | **23,647,540** |
| | **303,786,588** | **1,308,228** | **2,616,456** | **3,924,685** | **7,849,370** | **7,948,801** | **327,434,128** |
| | **₱835,743,850** | **₱36,068,112** | **₱685,391** | **(₱3,483,432)** | **(₱2,944,715)** | **₱12,936,570** | **₱879,005,776** |

**Includes future interest*
***Excluding statutory liabilities amounting to ₱17.64 million*

| | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | On Demand | Up to 1 Month | Over 1 to 3 Months | Over 3 to 6 Months | Over 6 to 12 Months | Beyond 1 Year | Total |
| Financial Assets | | | | | | | |
| Cash and cash equivalents* | ₱504,963,918 | ₱– | ₱388,431 | ₱– | ₱– | ₱– | ₱505,352,349 |
| Short-term investments* | – | – | 2,562,065 | – | 4,418,632 | – | 6,980,697 |
| Trade and other receivables | 533,136,568 | – | – | – | 9,000,000 | – | 542,136,568 |
| Advances to officers and employees | – | 236,025 | 472,049 | 708,074 | 1,416,148 | 2,183,373 | 5,015,669 |
| Finance lease receivable* | – | 254,678 | 534,823 | 802,234 | 1,337,057 | – | 2,928,792 |
| Equity investment at FVOCI | – | – | – | – | – | 8,814,010 | 8,814,010 |
| Rental deposits | – | – | – | – | – | 10,970,496 | 10,970,496 |
| | 1,038,100,486 | 490,703 | 3,957,368 | 1,510,308 | 16,171,837 | 21,967,879 | 1,082,198,581 |
| Financial Liabilities | | | | | | | |
| Trade and other payables** | 260,699,351 | 553,771 | – | – | 4,500,000 | – | 265,753,122 |
| Lease liability* | – | 2,483,767 | 4,967,535 | 7,451,302 | 14,645,556 | 17,298,278 | 46,846,438 |
| | 260,699,351 | 3,037,538 | 4,967,535 | 7,451,302 | 19,145,556 | 17,298,278 | 312,599,560 |
| | ₱777,401,135 | (₱2,546,835) | (₱1,010,167) | (₱5,940,994) | (₱2,973,719) | ₱4,669,601 | ₱769,599,021 |

**Includes future interest*
***Excluding statutory liabilities amounting to ₱16.99 million*

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk and other price risk, such as equity risk. In particular, the Company's financial instruments affected by market risk due to foreign exchange fluctuations are the cash and cash equivalents, trade and other receivables, trade and other payables and loans payable.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company follows a prudent policy in managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. As of December 31, 2020 and 2019, the Company's financial assets and financial liabilities are primarily short term in nature and are non-floating rate; hence, the Company is not subject to significant interest rate risk.

*Equity price risk*
Equity price risk is the risk that the Company will incur economic losses due to adverse changes in a particular stock or stock index. As of December 31, 2020 and 2019, the Company has no equity instruments that are subject to equity price risk.

*Foreign currency risk*
The Company's foreign currency exchange risk results from movements of the Philippine Peso (PHP) against the United States dollar (USD) of its financial assets and liabilities. To mitigate the Company's exposure, US dollar cash flows are monitored.

The following table summarizes the Company's exposure to foreign exchange risk as of December 31, 2020 and 2019:

| | **2020** | |
|---|---|---|
| | **USD** | **Equivalents in PHP** |
| **Financial assets** | | |
| Cash and cash equivalents | **$4,720,660** | **₱226,700,264** |
| Trade and other receivables | **7,675,954** | **368,622,350** |
| | **12,396,614** | **595,322,614** |
| **Less Financial liabilities** | | |
| Trade and other payables | **5,841,511** | **280,526,878** |
| | **$6,555,103** | **$314,795,736** |

| | 2019 | |
|---|---|---|
| | USD | Equivalents in PHP |
| **Financial assets** | | |
| Cash and cash equivalents | $2,930,724 | ₱148,397,228 |
| Trade and other receivables | 9,264,580 | 469,111,983 |
| | 12,195,304 | 617,509,211 |
| **Less Financial liabilities** | | |
| Trade and other payables | 3,694,359 | 187,063,883 |
| | $8,500,944 | ₱430,445,328 |

The table below set forth the impact of the range of reasonably possible changes in the USD to Philippines Peso exchange rate on the Company's income before income tax for the years ended December 31, 2020 and 2019.

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **USD appreciates (depreciates) by** | | | |
| | **4%** | **(4%)** | 5% | (5%) |
| Effect on income before tax | **₱14,195,053** | **(₱14,195,053)** | ₱25,594,081 | (₱25,594,081) |

The exchange rate used to revalue the Company's USD-denominated monetary assets and liabilities is ₱48.02:$1.00 and ₱50.64:$1.00 as of December 31, 2020 and 2019, respectively.

There is no impact on the Company's total comprehensive income other than those already affecting the income before income tax.

## 6. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents consist of:

| | 2020 | 2019 |
|---|---|---|
| Revolving and petty cash funds | **₱178,265,611** | ₱114,271,342 |
| Cash in banks | **534,527,657** | 390,692,576 |
| Cash equivalents | **379,659** | 379,659 |
| | **₱713,172,927** | ₱505,343,577 |

Revolving and petty cash funds are maintained in the company-owned locations which are used in their money transfer and other services.

Cash in banks represents savings and current deposit accounts with various local banks. The savings deposits bear interest ranging from 0.25% to 0.50% per annum in 2020 and 2019, respectively.

Cash equivalents represent time deposits with maturities of up to three (3) months depending on the immediate cash requirements of the Company and earn annual interest rates ranging from 0.75% to 2.00% in 2020 and 2019.

Short-term investments represent time deposits with maturities of more than three (3) months and earn interest of 0.56% per annum. The carrying amount of short-term investments amounted to ₱6.68 million as of December 31, 2020 and 2019.

Interest income earned on cash and cash equivalents and short-term investments totaled ₱2.09 million and ₱2.41 million in 2020 and 2019, respectively.

## 7. Trade and Other Receivables

This account consists of:

| | 2020 | 2019 |
|---|---|---|
| Trade receivables | **₱383,614,738** | ₱474,561,932 |
| Receivable from related parties (Note 26) | **37,198,666** | 18,953,358 |
| Advances to officers and employees (Note 26) | **1,671,316** | 2,832,296 |
| Others | **47,510,193** | 53,009,039 |
| | **469,994,913** | 549,356,625 |
| Less: allowance for credit losses (Note 15) | **4,387,761** | 4,387,761 |
| | **₱465,607,152** | ₱544,968,864 |

Trade receivables represent claims from Western Union for its inbound and outbound replenishments and amounts due from sub-agents representing the excess money for outbound services due to the Company against the inbound replenishments due to the sub-agents and cash advances to sub-agents.

Receivable from related parties includes amounts due from CSB for the commissions earned and reimbursable expenses incurred as teachers, pension and motorcycle loan application channel. It also includes advances provided to Waybetter, Inc., a subsidiary, and Banana Fintech Services Corporation, an associate, to finance various operating expenses such as fleet card payments, telephone and communication, and utilities, among others (see Note 26).

'Others' include receivable from various financial institutions related to the transactions processed by the Company's branches as part of its value-added products and receivable from one of its major sub-agents. It also includes receivables from insurance companies, Social Security System (SSS) and Medicard.

## 8. Other Current Assets

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Input VAT | **₱55,843,165** | ₱55,843,165 |
| Inventories | **15,427,449** | 8,354,607 |
| Prepaid expenses | **5,682,038** | 7,288,383 |
| Office supplies | **2,042,422** | 1,542,316 |
| | **78,995,074** | 73,028,471 |
| Less: allowance for impairment losses (Notes 15 and 22) | **45,756,961** | 40,756,961 |
| | **₱33,238,113** | ₱32,271,510 |

Input VAT primarily refers to several applications filed by the Company with the Bureau of Internal Revenue for tax refunds and conversion to tax credit certificates.

Prepaid expenses include payments made on advances for rent and miscellaneous prepayments.

Inventories represent the cost of remaining electronic load and unsold loyalty and prepaid cards at year-end. As of December 31, 2020 and 2019, inventories are carried at cost.

Office supplies represent those unused forms, brochures, stationeries and office supplies as determined at the end of the year.

## 9. Financial assets at Fair Value through Other Comprehensive Income

*Investment in unquoted equity securities*
The Company has unquoted equity securities classified as financial assets at FVOCI. This represents non-controlling interest in the common shares of Nationwide Development Corporation (NADECOR), a domestic and non-publicly listed company engaged in mining. The Company holds 10,726,700 shares of NADECOR. As of December 31, 2020 and 2019, the investment in NADECOR amounted to ₱8.81 million, net of fair value losses of ₱8.81 million recognized in other comprehensive income.

## 10. Property and Equipment

The composition of and the movements in this account follow:

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | **Transportation Equipment** | **Furniture, Fixtures and Equipment** | **Leasehold Improvements** | **Building** | **Land** | **Total** |
| **Cost** | | | | | | |
| Balances at beginning of year | **₱23,956,137** | **₱117,141,627** | **₱125,403,742** | **₱7,994,634** | **₱19,109,419** | **₱293,605,559** |
| Additions | **630,613** | **7,275,396** | **1,280,627** | **–** | **–** | **9,186,636** |
| Disposals | **(541,643)** | **(1,256,892)** | **(2,529,410)** | **–** | **–** | **(4,327,945)** |
| Balances at end of year | **24,045,107** | **123,160,131** | **124,154,959** | **7,994,634** | **19,109,419** | **298,464,250** |
| **Accumulated Depreciation and Amortization** | | | | | | |
| Balances at beginning of year | **19,576,874** | **110,027,762** | **119,317,135** | **2,384,978** | **–** | **251,306,749** |
| Depreciation and amortization (Note 22) | **2,182,844** | **6,403,471** | **3,229,539** | **278,514** | **–** | **12,094,368** |
| Disposals | **(279,851)** | **(1,245,229)** | **(2,337,435)** | **–** | **–** | **(3,862,515)** |
| Balances at end of year | **21,479,867** | **115,186,004** | **120,209,239** | **2,663,492** | **–** | **259,538,602** |
| **Net Book Values** | **₱2,565,240** | **₱7,974,127** | **₱3,945,720** | **₱5,331,142** | **₱19,109,419** | **₱38,925,648** |

| | 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Transportation Equipment | Furniture, Fixtures and Equipment | Leasehold Improvements | Building | Land | Total |
| Cost | | | | | | |
| Balances at beginning of year | ₱25,361,872 | ₱115,789,410 | ₱131,274,907 | ₱7,994,634 | ₱19,109,419 | ₱299,530,242 |
| Additions | 790,249 | 7,396,161 | 5,825,995 | – | – | 14,012,405 |
| Disposals | (2,195,984) | (6,043,944) | (11,697,160) | – | – | (19,937,088) |
| Balances at end of year | 23,956,137 | 117,141,627 | 125,403,742 | 7,994,634 | 19,109,419 | 293,605,559 |
| Accumulated Depreciation and Amortization | | | | | | |
| Balances at beginning of year | ₱18,507,836 | ₱108,255,213 | ₱126,810,329 | ₱2,106,466 | ₱– | ₱255,679,844 |
| Depreciation and amortization (Note 22) | 2,996,873 | 7,144,263 | 4,203,966 | 278,512 | – | 14,623,615 |
| Disposals | (1,927,835) | (5,371,714) | (11,697,160) | – | – | (18,996,710) |
| Balances at end of year | 19,576,874 | 110,027,762 | 119,317,135 | 2,384,978 | – | 251,306,749 |
| Net Book Values | ₱4,379,263 | ₱7,113,865 | ₱6,086,607 | ₱5,609,656 | ₱19,109,419 | ₱42,298,810 |

Net gain on disposal of property and equipment is included under ‘Other operating income’ in profit or loss (see Note 22).

As of December 31, 2020, and 2019, the cost of fully depreciated items of property and equipment still in use amounted to ₱250.48 million and ₱249.68 million, respectively.

## 11. Intangible Assets

The movements in the Company’s software costs in 2020 and 2019 are as follows:

| | **2020** | 2019 |
|---|---|---|
| **Cost** | **₱24,352,394** | ₱24,352,394 |
| **Accumulated amortization** | | |
| Balance at beginning of year | **18,681,946** | 11,084,686 |
| Amortization (Note 21) | **5,201,271** | 7,597,260 |
| Balance at end of year | **23,883,217** | 18,681,946 |
| **Net book value** | **₱469,177** | ₱5,670,448 |

## 12. **Investment in a Subsidiary/ Non-current Asset Held-for-Sale**

On May 2, 2017, the Company's BOD approved the subscription to 127,500 shares of Waybetter, Inc. ("Waybetter") at ₱100.00 par value per share for a 51.0% controlling interest. The amount subscribed has been fully paid in 2017.

Waybetter, Inc. was incorporated in the Philippines and registered with the Philippine SEC on August 31, 2017. Its primary purpose is to engage in the business of providing information technology frameworks and solutions to enable and facilitate conduct of e-commerce. Its registered address and principal place of business is at 5th Floor, A&V Crystal Tower Building, 105 Esteban Street, Legaspi Village, Makati City.

The Company has accounted for its investment in Waybetter under the equity method. The movements in the Company's investment in Waybetter for the year ended December 31, 2019 are as follows:

| | |
|---|---|
| Acquisition costs | ₱25,500,000 |
| Accumulated share in net loss | |
| Balance at the beginning of the year | (9,310,506) |
| Share in net loss during the year | (11,225,594) |
| Balance at end of the year | (20,536,100) |
| | ₱4,963,900 |

The summarized financial information of Waybetter as of and for the year ended December 31, 2019:

| | |
|---|---|
| Current assets | ₱9,459,756 |
| Noncurrent assets | 3,987,257 |
| Current liabilities | 1,675,070 |
| Noncurrent liabilities | 2,169,033 |
| Total equity | 9,602,910 |
| Net loss | 22,010,968 |

As of December 31, 2019, the Company or Waybetter has no significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of Company or Waybetter to transfer funds to (or from) the Company or Waybetter.

On December 6, 2019, the Company's BOD approved the disposal of its investment in Waybetter. Accordingly, in 2019, investment in Waybetter is reclassified to non-current asset held-for-sale. The non-current asset held-for-sale is recognized at the carrying amount of the investment in Waybetter as of December 31, 2019. Subsequently, in 2020, the Company did not recognize any share in the net losses of Waybetter.

On October 16, 2020, the Company voluntarily transferred to existing shareholders all of its shares of stock in Waybetter by way of a donation. As a result, the Company recognized losses from the disposal of the investment in Waybetter amounting to ₱4.96 million.

13. **Investment in an Associate**

Banana Fintech Services Corporation ("BFSC") was incorporated in the Philippines and registered with the Philippine SEC on March 1, 2018. On March 31, 2018, the Company fully paid its subscription to 320,000 common shares of BFSC at ₱100.00 par value, representing 32% ownership in BFSC.

BFSC's primary purpose is to engage in the business of providing business development, marketing and logistical support services, through offering of digital and software products and services, to facilitate the conduct of e-commerce and other activities necessary. Its registered address and principal place of business is at 5/F, A&V Crystal Tower No. 105 Esteban St., Legaspi Village, Makati City.

Management assessed that the Company has significant influence over BFSC. Accordingly, the Company's interest in BFSC is accounted for using the equity method.

The movements in the Company's investment in BFSC for the year ended December 31, 2020 and for December 31, 2019 is as follows:

| | **2020** | 2019 |
|---|---|---|
| Acquisition cost | **₱32,000,000** | ₱32,000,000 |
| Accumulated share in net loss | | |
| Balance at the beginning of the year | **(6,014,150)** | (4,902,278) |
| Share in net loss during the year | **(2,310,298)** | (1,111,872) |
| | **(8,324,448)** | (6,014,150) |
| Balance at end of the year | **₱23,675,552** | ₱25,985,850 |

As of December 31, 2020 and 2019, the Company did not recognize impairment allowance on its investment in BFSC (see Note 3).

The following table illustrates the summarized financial information of BFSC as of and for the years ended December 31, 2020 and December 31, 2019:

| | **2020** | 2019 |
|---|---|---|
| *Statements of financial position* | | |
| Current assets | **₱73,149,555** | ₱80,074,881 |
| Noncurrent assets | **31,742,812** | 5,019,037 |
| Current liabilities | **(29,424,573)** | (2,566,327) |
| Noncurrent liabilities | **(1,481,695)** | (1,321,810) |
| Total equity | **73,986,098** | 81,205,781 |
| Company's share in equity | **32%** | 32% |
| Carrying amount of the investment | **₱23,675,552** | ₱25,985,850 |
| *Statement of comprehensive income* | | |
| Revenues | **₱17,737,731** | ₱20,206,737 |
| Net loss/Total comprehensive loss | **(7,219,682)** | (3,474,601) |
| Company's share in equity | **32%** | 32% |
| Share in net losses | **(₱2,310,298)** | (₱1,111,872) |

The Company has no significant restrictions (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of BFSC to transfer funds to the Company in the form of cash dividends or to repay loans or advances made by the Company. There are no contingent liabilities relating to Company's interest in its investment in BFSC.

## 14. Other Noncurrent Assets

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Rental deposits | **₱10,417,261** | ₱10,970,496 |
| Advances to officers and employees (Note 26) | **1,654,100** | 2,183,373 |
| Deferred input VAT | **275,200** | 960,610 |
| Other deposits | **725,619** | 750,619 |
| | **₱13,072,180** | ₱14,865,098 |

Rental deposits represent non-interest-bearing deposits made to the company-owned locations, which are refundable at the end of the lease term.

Deferred input VAT pertains to input taxes on purchases of capital goods for VAT reporting purposes with acquisition costs exceeding ₱1.00 million for each particular month. These are amortized over sixty (60) months or the life of the related asset, whichever is shorter.

## 15. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

| | **2020** | 2019 |
|---|---|---|
| Balances at beginning of year | | |
| Trade and other receivables | **₱4,387,761** | ₱4,489,896 |
| Other current assets | **40,756,961** | 41,246,112 |
| | **45,144,722** | 45,736,008 |
| Provisions for credit and impairment losses | | |
| Other current assets (Note 8) | **5,000,000** | 5,000,000 |
| Accounts written off | | |
| Trade and other receivables | – | (102,135) |
| Other current assets | – | (5,489,151) |
| Balances at end of year | | |
| Trade and other receivables (Note 7) | **4,387,761** | 4,387,761 |
| Other current assets (Note 8) | **45,756,961** | 40,756,961 |
| | **₱50,144,722** | ₱45,144,722 |

The allowance for credit losses on trade and other receivables represents allowance for Stage 3 accounts as of December 31, 2020 and 2019.

## 16. **Trade and Other Payables**

This account consists of:

| | 2020 | 2019 |
|---|---|---|
| Trade payables | **₱293,859,735** | ₱258,160,884 |
| Government payables | **17,641,489** | 16,985,780 |
| Accrued expenses: | | |
| Utilities and communications | **2,119,856** | 641,039 |
| Rent payable | **1,839,288** | 795,298 |
| Professional fees | **1,061,595** | 1,039,475 |
| Others | **394,071** | 616,424 |
| Due to a related party (Note 26) | **12,043** | – |
| Other payable | **4,500,000** | 4,500,000 |
| | **₱321,428,077** | ₱282,738,900 |

Trade payables represent amounts due to sub-agents to settle net pay-out transactions. In connection with the Company's representative agreement with Western Union for money transfer services as mentioned in Note 19, the Company appointed company sub-agents to receive funds from customers and make payments to recipients.

The terms of the sub-representative agreement provide, among others, that the sub-agent shall remit to the Company the principal amount of, and all fees and other charges payable for, each money transfer service transaction it originates and pending such remittance, all amounts shall be held in trust by the sub-agent for Western Union.

Settlement of the principal amount for pay-out transactions shall be made by the Company on the following banking day after the transaction, subject to interest for late payment. Money received by the sub-agent for outbound services, and other funds due to the Company, shall be automatically offset against any inbound replenishment due to the sub-agent.

In the event that the sub-agent's outbound service is greater than its inbound service, sub-agent should deposit the difference to the Company's bank account on the following day after transaction date, subject to late payment penalty and presented as part of 'Trade receivables'. The sub-agent's commission which ranges from 8.00% to 13.00% in 2020 and 10.00% to 15.00% in 2019, net of charges, serves as the sub-agent's compensation under the agreement. The initial term of the agreement is two (2) years, renewable under certain conditions.

Government payables include VAT payable, documentary stamp tax payable, withholding taxes payable, and dues to SSS, Pag-ibig and PhilHealth.

Other payable represents a payable to Western Union.

## 17. **Contract Liability**

The Company's contract liability pertains to the non-refundable bonus amounting to US$800,000 (or equivalent to ₱40.67 million) received in January 2020 from Western Union representing the consideration for the Company providing money transfer services in the Philippines from January 1, 2020 until December 31, 2026.

The rollforward analysis of the contract liability in 2020 is as follows:

| | |
|---|---|
| Consideration received in advance | ₱40,672,000 |
| Revenue recognized during the year | (5,091,400) |
| Balance at December 31, 2020 | ₱35,580,600 |
| | |
| *Balance presented under:* | |
| Current liabilities | ₱5,230,970 |
| Non-current liabilities | 30,349,630 |

18. **Loans Payable**

Loans payable includes loans to various banks with annual interest ranging from 3.36% to 3.50% in 2020 and 3.25% to 4.42% in 2019 for USD-denominated loans payable, while 4.00% in 2020 and 5.00% in 2019 for peso-denominated loans payable, which generally have terms ranging from one (1) to thirty-one (31) days. These bank loans represent drawdowns from the Company's unsecured credit line with local banks, which are used to finance transactions during the holidays and long weekends.

As of December 31, 2020, and 2019, the Company has no outstanding loan payable.

In 2020 and 2019, interest expense on loans payable amounted to ₱15.24 million and ₱11.52 million, respectively.

19. **Significant Contracts**

The Company entered into an International Representation Agreement (the "Agreement") with Western Union Network (Canada) Company ("Western Union") wherein the Company shall offer Western Union's Money Transfer Services to the general public in the Philippines. The Agreement was made effective on July 16, 1998 and was renewed through various amendments until September 1, 2022. However, in the fourth quarter of 2019, the Company and Western Union executed an amendment to the International Representation Agreement whereby, the Company became a non-exclusive remittance partner of Western Union in the Philippines effective January 1, 2020 and the term has been extended to December 31, 2026.

The Company is entitled to a commission at predetermined rates for every transfer transaction processed. Under the agreement, the Company also provides appropriate marketing and promotion to raise the awareness level of Western Union by spending at least a certain percentage of its projected gross revenues.

In 2015, the Company was engaged by CSB as an outsourced loan application channel for the purpose of marketing and receiving salary loan applications of public-school teachers and DepEd employees. The agreement with CSB is effective for a term of five (5) years, commencing on March 4, 2015. On March 4, 2020, the agreement was renewed for another term of five (5) years, effective beginning on March 4, 2020 up to March 3, 2025 unless sooner terminated, revoked or cancelled by either of the parties (see Note 26).

## 20. Equity

Capital Stock

Details of the Company's capital stock follow:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| Common - ₱100 par value: | | | | |
| Authorized | **10,000,000** | **₱1,000,000,000** | 10,000,000 | ₱1,000,000,000 |
| Issued and outstanding | **4,826,152** | **482,615,200** | 4,826,152 | 482,615,200 |

Capital Management

The primary objective of the Company's capital management policy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize stockholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to stockholders or issue new shares.

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

## 21. Revenues and Cost of Services

Revenues of the Company in 2020 and 2019 consist of:

| | **2020** | 2019 |
|---|---|---|
| **Revenue from contracts with customers** | | |
| Revenue on remittance and telegraphic services | **₱238,649,147** | ₱311,046,880 |
| Service fees on teachers, pension and motorcycle loans | **85,672,146** | 71,708,400 |
| Income on added-value products | **49,026,399** | 46,303,579 |
| **Total** | **373,347,692** | 429,058,859 |
| **Other revenue** | | |
| Revenue on foreign exchange currency transactions | **226,533,831** | 184,545,002 |
| **Total revenue** | **₱599,881,523** | ₱613,603,861 |

The following table illustrates the disaggregation disclosure by primary geographical markets and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the different types of revenues.

| | 2020 | | |
|---|---|---|---|
| | **Foreign** | **Domestic** | **Total** |
| **Primary geographical markets** | | | |
| Revenue on remittance and telegraphic services | **₱223,873,607** | **₱14,775,540** | **₱238,649,147** |
| Service fees on teachers, pension and motorcycle loans | – | **85,672,146** | **85,672,146** |
| Income on added-value products | – | **49,026,399** | **49,026,399** |
| **Total revenue from contracts with customers** | **₱223,873,607** | **₱149,474,085** | **₱373,347,692** |

(Forward)

| | 2020 | | |
|---|---|---|---|
| | **Foreign** | **Domestic** | **Total** |
| **Timing of revenue recognition** | | | |
| Services transferred over time | **₱223,873,607** | **₱63,049,379** | **₱286,922,986** |
| Goods and services transferred at a point in time* | **–** | **86,424,706** | **86,424,706** |
| **Total revenue from contracts with customers** | **₱223,873,607** | **₱149,474,085** | **₱373,347,692** |

*This comprises income earned from sale of electronic load included in "Income on added-value products" and service fees on teachers, pension and motorcycle loans.

| | 2019 | | |
|---|---|---|---|
| | Foreign | Domestic | Total |
| Primary geographical markets | | | |
| Revenue on remittance and telegraphic services | ₱286,366,435 | ₱24,680,445 | ₱311,046,880 |
| Service fees on teachers, pension and motorcycle loans | – | 71,708,400 | 71,708,400 |
| Income on added-value products | – | 46,303,579 | 46,303,579 |
| Total revenue from contracts with customers | ₱286,366,435 | ₱142,692,424 | ₱429,058,859 |
| Timing of revenue recognition | | | |
| Services transferred over time | ₱286,366,435 | ₱69,624,807 | ₱355,991,242 |
| Goods and services transferred at a point in time* | – | 73,067,617 | 73,067,617 |
| Total revenue from contracts with customers | ₱286,366,435 | ₱142,692,424 | ₱429,058,859 |

*This comprises income earned from sale of electronic load included in "Income on added-value products" and service fees on teachers, pension and motorcycle loans.

*Cost of services*

Cost of services in 2020 and 2019 consists of:

| | **2020** | 2019 |
|---|---|---|
| Salaries and wages | **₱182,357,975** | ₱206,955,160 |
| Commission expense | **45,455,121** | 57,831,640 |
| Rental expense (Note 25) | **18,655,871** | 41,180,360 |
| Postage and telephone | **19,008,806** | 21,516,060 |
| Amortization expense (Note 25) | **23,963,082** | 20,280,617 |
| | **₱289,440,855** | ₱347,763,837 |

## 22. Other Operating Income and Expenses

*Other operating income*

Other operating income consists of:

| | **2020** | 2019 |
|---|---|---|
| Rental income (Note 24) | **₱708,672** | ₱591,862 |
| Gain on sale of property and equipment | **110,153** | 243,843 |
| Income on loyalty card | **348** | 682,060 |
| Management fees | – | 1,440,762 |
| Other income | **982,420** | 787,850 |
| | **₱1,801,593** | ₱3,746,377 |

Other income includes, cancellation fees on telegraphic transactions, refunds on bank charges and penalties, and sale of scrap and shredded materials.

*Depreciation and amortization*
The details of depreciation and amortization presented under "Other operating expenses" follow:

| | **2020** | 2019 |
|---|---|---|
| Property plant and equipment (Note 10) | **₱12,094,368** | ₱14,623,614 |
| Right-of-use assets (Note 24) | **3,732,074** | 9,456,481 |
| Intangible asset (Note 11) | **5,201,271** | 7,597,260 |
| | **₱21,027,712** | ₱31,677,355 |

*Other expenses*
Other expenses presented under "Other operating expenses" consist of:

| | **2020** | 2019 |
|---|---|---|
| Provision for impairment losses (Note 15) | **₱5,000,000** | ₱5,000,000 |
| Subscriptions and membership | **2,239,560** | 763,110 |
| Bank charges | **2,159,770** | 2,876,246 |
| Security and janitorial services | **1,513,433** | 2,718,340 |
| Insurance | **1,393,345** | 1,361,718 |
| Freight | **532,100** | 1,408,932 |
| Representation and entertainment | **379,141** | 929,369 |
| Retainer fee | **250,500** | 305,900 |
| Loss on fraud and robbery | **–** | 5,679,954 |
| Miscellaneous | **1,530,255** | 3,695,767 |
| | **₱14,998,104** | ₱24,739,336 |

Miscellaneous expense includes meal allowances during product presentations and other company activities, and other branch expenses.

## 23. Retirement Benefits

The Company has a noncontributory defined benefit retirement plan covering substantially all its employees. Under this retirement plan, all covered employees are entitled to cash benefits after satisfying certain age and service requirements. Effective January 1, 2019, the Company's BOD approved the amendments in the plan to increase the retirement benefits for every year of service.

The cost of defined benefit pension plan and present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal actuarial assumptions used in determining the retirement benefit obligation in 2020 and 2019 are shown below:

| | **2020** | 2019 |
|---|---|---|
| Discount rate | **3.97%** | 5.01% |
| Future salary increases | **6.00%** | 6.00% |
| Turnover rate | | |
| 17 - 24 years | **A scale ranging** | A scale ranging |
| 25 - 29 years | **from 15.00% at** | from 14.70% at |
| | **Age 18 to 0.00%** | Age 18 to 0.00% |
| 30 - 59 years | **at age 60** | at age 60 |
| Average remaining working lives | **9** | 14 |

Changes in the net retirement asset in 2020 and 2019 follow:

| | **2020** | | |
|---|---|---|---|
| | **PVO** | **FVPA** | **Net retirement liability (asset)** |
| Balances at beginning of year | **₱86,446,363** | **₱132,387,559** | **(₱45,941,196)** |
| Net benefit cost in profit or loss | | | |
| Current service cost | **9,478,132** | **–** | **9,478,132** |
| Past service credit | **(1,969,038)** | **–** | **1,969,038** |
| Net interest | **3,979,471** | **6,245,633** | **(2,266,162)** |
| | **11,488,565** | **6,245,633** | **5,242,932** |
| Remeasurements in OCI | | | |
| Actuarial losses (gains) arising from: | | | |
| Experience adjustments | **142,523** | **–** | **142,523** |
| Change in financial assumptions | **9,095,828** | **–** | **9,095,828** |
| | **9,238,351** | **–** | **9,238,351** |
| Return on plan assets, excluding interest income | – | **7,053,266** | **(7,053,266)** |
| | **9,238,351** | **7,053,266** | **2,185,085** |
| Benefits paid* | **(10,052,989)** | **(10,052,989)** | **–** |
| Balances at end of year | **₱97,120,290** | **₱135,633,469** | **(₱38,513,179)** |

*Benefits were paid from the operating funds of the Company; these amounts reimbursable from the retirement fund were presented as reduction in the fair value of the plan assets.

| | 2019 | | |
|---|---|---|---|
| | PVO | FVPA | Net retirement liability (asset) |
| Balances at beginning of year | ₱54,950,660 | ₱128,387,498 | (₱73,436,838) |
| Net benefit cost in profit or loss | | | |
| Current service cost | 7,265,237 | – | 7,265,237 |
| Past service cost | 5,433,198 | – | 5,433,198 |
| Net interest | 4,437,979 | 9,513,514 | (5,075,535) |
| | 17,136,414 | 9,513,514 | 7,622,900 |
| Remeasurements in OCI | | | |
| Actuarial losses (gains) arising from: | | | |
| Experience adjustments | 17,221,186 | – | 17,221,186 |
| Change in financial assumptions | 19,104,599 | – | 19,104,599 |
| | 36,325,785 | – | 36,325,785 |
| Return on plan assets, excluding interest income | – | 16,453,043 | (16,453,043) |
| | 36,325,785 | 16,453,043 | 19,872,742 |
| Benefits paid | (21,966,496) | (21,966,496) | – |
| Balances at end of year | ₱86,446,363 | ₱132,387,559 | (₱45,941,196) |

The amount of defined benefit included in the profit and loss is determined as follows:

| | **2020** | 2019 |
|---|---|---|
| Current service cost | **₱9,478,132** | ₱7,265,237 |
| Past service cost (credit) | **(1,969,038)** | 5,433,198 |
| Net interest income | **(2,266,162)** | (5,075,535) |
| | **₱5,242,932** | ₱7,622,900 |

In 2019, the past service cost includes loss of ₱4.84 million arising from the plan amendments effective January 1, 2019. The current service costs and net interest income for 2019 are computed based on the remeasured defined benefit obligation as of January 1, 2019. Past service for cost for 2019 also includes net curtailment loss of ₱0.59 million resulting from the significant retrenchment of employees due to closure of branches in 2019.

In 2020, the Company recognized past service credit of ₱1.97 million arising from curtailment as the Company continued to retrench employees due to closure of branches.

The movements of the 'Remeasurement gain (loss) on net retirement asset' follow:

| | **2020** | 2019 |
|---|---|---|
| Balances at beginning of year | **₱64,195,838** | ₱78,106,757 |
| Actuarial losses on defined benefit obligation | **(9,238,351)** | (36,325,785) |
| Actuarial gains on return on plan assets | **7,053,266** | 16,453,043 |
| | **(2,185,085)** | (19,872,742) |
| Income tax effect | **655,525** | 5,961,823 |
| Remeasurement loss for the year | **(1,529,560)** | (13,910,919) |
| Balances at end of year, net of tax | **₱62,666,278** | ₱64,195,838 |

The fair value of plan assets by each class as of the end of the reporting period follow:

| | **2020** | 2019 |
|---|---|---|
| Cash and cash equivalents | **₱5,348,626** | ₱1,920,751 |
| Investment in securities | **139,571,288** | 129,660,674 |
| Interest and other receivables | **831,041** | 835,804 |
| Fees payable | **(64,497)** | (29,670) |
| Accrued benefits payable to the Company | **(10,052,989)** | – |
| | **₱135,633,469** | ₱132,387,559 |

In 2020, retirement benefits amounting to ₱10.05 million were paid by the Company from its own operating funds. Accordingly, the Company recognized receivable from the retirement fund, presented under "Trade and other receivables", for these benefits paid.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2020 and 2019, assuming all other assumptions were held constant:

| | **2020** | |
|---|---|---|
| | **Increase (decrease)** | **Increase (decrease) in PVO** |
| **Discount rate** | **+1.00%** | **(₱9,878,660)** |
| | **-1.00%** | **11,827,738** |
| **Salary increase rate** | **+1.00%** | **12,006,117** |
| | **-1.00%** | **(7,743,420)** |

| | 2019 | |
|---|---|---|
| | Increase (decrease) | Increase (decrease) in PVO |
| Discount rate | +1.00% | (₱8,506,157) |
| | -1.00% | 10,139,008 |
| Salary increase rate | +1.00% | 10,443,328 |
| | -1.00% | (8,925,790) |

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

| | **2020** | 2019 |
|---|---|---|
| Less than 1 year | **₱13,994,549** | ₱11,777,575 |
| More than 1 year to 5 years | **17,600,311** | 16,914,359 |
| More than 5 years to 10 years | **37,390,513** | 36,070,923 |
| More than 10 years to 15 years | **67,456,402** | 78,184,986 |
| More than 15 years to 20 years | **78,928,903** | 79,733,611 |
| More than 20 years | **316,702,055** | 331,449,288 |

The average duration of the defined benefit obligation at the end of the reporting period is 20.63 years and 20.98 years as of December 31, 2020 and 2019, respectively.

24. **Leases**

Company as a Lessee

The Company has various lease contracts covering its head office and branches, ranging from one (1) to five (5) years with some of the lease contracts having a yearly escalation of 5% to10% on its periodic amortization. Generally, the Company is restricted from assigning and subleasing the leased assets and some contracts require the Company to maintain certain financial ratios.

The Company applies the 'short-term lease' recognition exemptions for the leases of less than one (1) year term. This includes the Company's lease of the head office in 2020. As of December 31, 2020, the Company is in the process renewing its contract for the lease of the head office.

The rollforward analysis of right-of-use account follows:

| | **2020** | | |
|---|---|---|---|
| | **Office Space** | **Transportation Equipment** | **Total** |
| **Cost** | | | |
| Balances at beginning of year | **₱70,620,925** | **₱1,645,647** | **₱72,266,572** |
| New contracts executed (Note 27) | **13,331,729** | **–** | **13,331,729** |
| Pre-termination of lease contracts | **(7,952,802)** | **–** | **(7,952,802)** |
| Balances at end of year | **75,999,852** | **1,645,647** | **77,645,499** |
| **Accumulated Amortization** | | | |
| Balances at beginning of year | **29,110,158** | **626,941** | **29,737,099** |
| Amortization (Note 23) | **27,195,297** | **499,860** | **27,695,155** |
| Pre-termination of lease contracts | **(3,268,864)** | **–** | **(3,268,864)** |
| Balances at end of year | **53,036,589** | **1,126,801** | **54,163,390** |
| **Net Book Values** | **₱22,963,263** | **₱518,846** | **₱23,482,109** |

| | 2019 | | |
|---|---|---|---|
| | Office Space | Transportation Equipment | Total |
| Cost | | | |
| Balances upon adoption as of January 1, 2019 | ₱42,090,195 | ₱1,645,647 | ₱43,735,842 |
| New contracts executed (Note 27) | 28,530,730 | – | 28,530,730 |
| Balances at end of year | 70,620,925 | 1,645,647 | 72,266,572 |
| Accumulated Amortization | | | |
| Balances at initial adoption | – | – | – |
| Amortization (Note 23) | (29,110,158) | (626,941) | (29,737,099) |
| Balances at of year | (29,110,158) | (626,941) | (29,737,099) |
| Net Book Values | ₱41,510,767 | ₱1,018,706 | ₱42,529,473 |

The rollforward analysis of lease liabilities follows:

| | 2020* |
|---|---|
| Balance at beginning of year | ₱44,743,586 |
| New contracts executed (Note 27) | 13,331,730 |
| Interest expense (Note 27) | 1,696,863 |
| Lease payments (Note 27) | (32,140,450) |
| Pre-termination of lease contracts | (4,760,576) |
| Balance at end of year | ₱22,871,153 |

*Pertains to lease of office spaces

| | 2019 | | |
|---|---|---|---|
| | Leases of Office Space | Leases of Transportation Equipment | Total |
| Balances upon adoption as of January 1, 2019 | ₱48,307,907 | ₱1,078,479 | ₱49,386,386 |
| Executed new contracts (Note 27) | 28,530,731 | – | 28,530,731 |
| Interest expense (Note 27) | 2,929,162 | 14,802 | 2,943,964 |
| Lease payments (Note 27) | (35,024,214) | (1,093,281) | (36,117,495) |
| Balances at December 31, 2019 | ₱44,743,586 | ₱– | ₱44,743,586 |

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

| | **2020** | 2019 |
|---|---|---|
| Within 1 year | **₱15,698,739** | ₱29,548,160 |
| More than 1 year to 2 years | **5,833,787** | 11,979,883 |
| More than 2 years to 3 years | **1,669,804** | 3,748,169 |
| More than 3 years to 4 years | **340,168** | 1,400,752 |
| More than 5 years | **105,042** | 169,474 |

The following are the amounts recognized in statement of income in 2020 and 2019:

| | **2020** | 2019 |
|---|---|---|
| Amortization expense of ROU assets | **₱27,695,155** | ₱29,737,099 |
| Interest expense on lease liabilities | **1,696,863** | 2,943,964 |
| Expenses relating to short-term leases (Notes 21 and 22) | **25,228,330** | 41,180,360 |
| Total amount recognized in statement of income | **₱54,620,348** | ₱73,861,423 |

The breakdown of the depreciation of ROU asset in 2020 and 2019 follows:

| | **2020** | 2019 |
|---|---|---|
| Cost of services (Note 21) | **₱23,963,082** | ₱20,280,618 |
| Operating expense (Note 22) | **3,732,073** | 9,456,481 |
| | **₱27,695,155** | ₱29,737,099 |

Amortization expense and rental expense presented in 'Cost of services' pertains to the right-of-use assets and short-term leases arising from the lease of its branches, respectively. Amortization expense and office rental expense presented in 'Operating expense' pertains to the right-of-use assets and short-term leases arising from the lease of the head office space and transportation equipment, respectively.

Company as a Lessor
The Company leases out portion of its building space to two (2) tenants. Among the two contracts that expired on June 15, 2020 and July 31, 2020, the latter was renewed for another one (1) year. On November 16, 2020, the Company also entered into a separate new contract with a lessee for a term of 1 year. As of December 31, 2020, and 2019, these contracts are accounted for as operating leases.

The future minimum lease receivables under the operating lease are as follow:

| | **2020** | 2019 |
|---|---|---|
| Within one year | **₱284,232** | ₱321,134 |

The Company also entered into sublease arrangements with Waybetter and BFSC, related parties, on February 16, 2018, to lease office premises. Both contracts have term of three (3) years that are subject to yearly escalation of 5.00%. The Company accounted for these contracts as finance leases. As of December 31, 2020, the sublease arrangements with Waybetter and BFSC were no longer renewed.

As of December 31, 2019, the gross investment and unearned finance income in the sublease, presented in net amount under "Finance lease receivable" are as follows:

| | 2019 |
|---|---|
| **Gross investment in finance lease receivables** | |
| Finance lease receivables: | |
| Due within 1 year | ₱2,928,791 |
| Due beyond 1 year but not beyond 5 years | – |
| | 2,928,791 |
| **Unearned finance income** | |
| Due within 1 year | 90,077 |
| Due beyond 1 year but not beyond 5 years | – |
| ` | 90,077 |
| **Net investment in finance lease receivables** | ₱2,838,714 |

## 25. Income Taxes

Current tax regulations provide that the RCIT rate is 30.00% and the interest allowed as a deductible expense shall be reduced by an amount of 33.00% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of entertainment and representation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses of the Company amounted to ₱0.34 million and ₱0.93 million in 2020 and 2019, respectively, included under 'Other operating expenses' in the profit or loss.

An MCIT of 2.00% of modified gross income is computed and compared with the RCIT. The excess of MCIT over the RCIT and NOLCO may be applied against the Company's income tax liability and taxable income, respectively, over a three-year period from the date of inception.

Current tax regulations also provide that an optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Company elected to claim itemized deductions instead of OSD in computing for the RCIT in 2020 and 2019.

The provision for (benefit from) income tax consists of:

| | **2020** | 2019 |
|---|---|---|
| Current | | |
| RCIT | **₱10,397,737** | ₱– |
| MCIT | – | 5,628,287 |
| Final tax | **382,713** | 381,252 |
| | **10,780,450** | 6,009,539 |
| Deferred | **5,843,157** | (10,064,866) |
| | **₱16,623,607** | (₱4,055,327) |

In 2020 and 2019, benefit from deferred tax credited directly to OCI amounted to ₱0.66 million and ₱5.96 million, respectively.

The components of the net deferred tax assets (liabilities) follow:

| | **2020** | 2019 |
|---|---|---|
| Deferred tax assets on: | | |
| Retirement benefit obligation (excluding deferred tax recognized in other comprehensive income) | **₱15,303,023** | ₱13,730,143 |
| Contract liability | **10,674,180** | – |
| Unrealized foreign exchange loss - net | **4,992,493** | 4,926,027 |
| Unamortized past service cost | **2,763,269** | 4,511,738 |
| Allowance for credit and impairment losses | **1,316,328** | 1,316,328 |
| Accrued expenses | **1,624,443** | 807,810 |
| Lease liabilities, net of right-of-use assets | – | 306,313 |
| Excess MCIT | – | 11,048,623 |
| NOLCO | – | 5,842,278 |
| | **36,673,736** | 42,489,260 |

(Forward)

| | **2020** | 2019 |
|---|---|---|
| Deferred tax liabilities on: | | |
| Retirement benefit obligation recognized in other comprehensive income | **(₱26,856,977)** | (₱27,512,502) |
| Right-of-use assets, net of lease liabilities | **(27,633)** | – |
| | **(27,633)** | (27,512,502) |
| | **₱9,789,126** | ₱14,976,758 |

As of December 31, 2020 and 2019, the Company did not recognize deferred tax asset on fair value losses/impairment losses on investment in an unquoted equity amounting to ₱8.81 million, since management believes that it is not highly probable that the related benefits will be realized in the foreseeable future.

The balances of NOLCO and excess MCIT over RCIT with their corresponding years of expiration are as follows:

| | Inception | Amount | Used | Expired | Remaining Balance | Expiry Year |
|---|---|---|---|---|---|---|
| NOLCO | 2018 | ₱19,474,260 | ₱19,474,260 | ₱– | ₱– | 2021 |

| | Inception | Amount | Used | Expired | Remaining Balance | Expiry Year |
|---|---|---|---|---|---|---|
| Excess MCIT over RCIT | 2019 | ₱5,628,287 | ₱5,628,287 | ₱– | ₱– | 2022 |
| | 2018 | 5,420,336 | 5,420,336 | – | – | 2021 |
| | | ₱11,048,623 | ₱11,048,623 | ₱– | ₱– | |

The reconciliation of statutory income tax to effective income tax follows:

| | **2020** | 2019 |
|---|---|---|
| Statutory income tax | **₱13,004,025** | (₱7,889,224) |
| Tax effects of: | | |
| Nondeductible expenses | **3,186,697** | 391,043 |
| Nondeductible share in net losses of subsidiary and associate | **648,743** | 3,701,240 |
| Income subjected to final tax | **(215,858)** | (258,386) |
| Effective income tax | **₱16,623,607** | (₱4,055,327) |

## 26. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries, associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Company in its regular conduct of business has entered into transactions with its related parties. Transactions between related parties are based on terms similar of those offered to non-related parties.

Related party transactions of the Company by category of related party are presented below. The Company settles transactions with related parties in cash.

| | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| **Related Party** | **Terms and Conditions/Nature** | **Volume/ Amount** | **Outstanding Balance** | Volume/ Amount | Outstanding Balance |
| **Parent Company** | | | | | |
| **Union Bank of the Philippines** | | | | | |
| Cash in bank | Savings and current deposit accounts with an annual interest rate ranging from 0.10% to 0.13%. | | **₱161,006,948** | | ₱78,714,772 |
| | *Deposits* | **₱134,200,866,399** | | ₱97,328,955,152 | |
| | *Withdrawals* | **(134,154,636,935)** | | (107,082,139,317) | |
| Interest income | | **289,706** | – | 141,802 | – |
| **Investor with Significant Influence** | | | | | |
| **City Savings Bank, Inc.** | | | | | |
| Cash in bank | Checking account | | **5,892,627** | | 5,642,201 |
| | *Deposits* | **111,290,030** | | 126,667,893 | |
| | *Withdrawals* | **(111,039,605)** | | (119,400,000) | |
| Receivable from related parties | Service fees for processing loan applications of teachers, pension and motorcycle loans. Outstanding balance is non-interest bearing, unsecured and due within 15 days upon billing. No allowance provided. | **85,672,146** | **37,155,603** | 71,708,400 | 18,270,828 |
| | Reimbursements for signage and training expenses. Outstanding balance is non-interest bearing, unsecured and due on demand. No allowance provided. | **66,474** | **43,063** | 409,559 | 40,034 |
| **Entity with Significant Influence over UBP Group** | | | | | |
| **Aboitiz Equity Ventures, Inc.** | | | | | |
| Trade and other payables and various operating expenses | Various operating expenses such as professional fees, IT support, trainings and seminars, payable on demand or monthly or quarterly, depending on the terms of the agreement | **49,001** | – | 2,171,382 | – |
| **Subsidiary** | | | | | |
| **Waybetter, Inc.*** | | | | | |
| Receivable from related parties | Non-interest bearing advances extended to the subsidiary, unsecured and due on demand. No allowance provided. | – | – | 6,760,026 | 501,599 |

(Forward)

| Related Party | Terms and Conditions/Nature | 2020 Volume/ Amount | 2020 Outstanding Balance | 2019 Volume/ Amount | 2019 Outstanding Balance |
|---|---|---|---|---|---|
| Management fees | Management fees. Remaining receivable included in the above balance | **₱–** | **₱–** | ₱1,440,762 | ₱– |
| Finance lease receivable | Present value of lease repayments of WBI to the Company based on the sublease arrangement | **1,293,836** | **–** | 2,556,685 | 1,293,836 |
| **Associate** | | | | | |
| **Banana Fintech Services Corporation** | | | | | |
| Receivable from (to) related parties | Non-interest bearing advances extended to (from) the associate, unsecured and due on demand. No allowance provided for receivable from BFSC | **178,405** | **(12,043)** | 1,386,146 | 79,411 |
| Finance lease receivable | Present value of lease repayments of BFSC to the Company based on the sublease arrangement | **1,544,879** | **–** | 3,052,758 | 1,544,879 |
| **Companies under common ownership** | | | | | |
| **Adrian V. Ocampo Insurance Broker, Inc.** | | | | | |
| Insurance | Premium payments paid through AVO Insurance Broker, Inc. | **21,000** | **–** | 2,216 | – |
| **East Offices Realty & Management, Co.** | | | | | |
| Lease liability | Present value of lease payments for lease of head office discounted using incremental borrowing rate | **3,232,213** | **–** | 12,242,702 | 3,204,931 |
| Interest Expense | Interest expense on lease liabilities | **27,283** | **–** | 504,954 | – |
| Rental expense | Monthly rental fee payments for lease of head office | **6,572,459** | **–** | – | – |
| **Officers and employees** | | | | | |
| Advances to officers and employees | Advances extended to officers and employees representing their share in Company's car plan program | **1,291,631** | **3,325,416** | 35,874 | 5,015,669 |
| **Key management Personnel** | | | | | |
| Short term employee benefit | Compensation | **29,896,106** | **–** | 34,421,091 | – |
| Post-employment benefits | Retirement benefits | **2,123,166** | **–** | 2,009,438 | – |

*Waybetter is no longer a related party as of December 31, 2020.

*Remuneration of key management personnel*
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

## 27. Notes to Statement of Cash flows

The following is the summary of noncash investing and financing activities of the Company:

| | **2020** | 2019 |
|---|---|---|
| **Noncash investing activity** | | |
| Right-of-use assets (Execution of new contracts) | **₱13,331,730** | ₱28,530,731 |
| **Noncash financing activity** | | |
| Lease liabilities (Execution of new contracts) | **13,331,730** | 28,530,731 |

The following are the cash flow movements of the Company's financing liabilities in 2020 and 2019:

| | **2020** | | | | | |
|---|---|---|---|---|---|---|
| | | | **Non-cash changes** | | | |
| | **January 1, 2020** | **Net Cash flows** | **Interest Accretion** | **Net Additions** | **Foreign exchange movement** | **December 31, 2020** |
| Loans payable | **₱–** | **₱17,945,500** | **₱–** | **₱–** | **(₱17,945,500)** | **₱–** |
| Lease liabilities | **44,743,586** | **(32,140,450)*** | **1,696,863** | **8,571,154** | **–** | **22,871,153** |
| | **₱44,743,586** | **(₱14,194,950)** | **₱1,696,863** | **₱8,571,154** | **(₱17,945,500)** | **₱22,871,153** |

*Net cash flows represent the payments of principal portion of the lease liabilities amounting to ₱30.44 million classified as financing activity and interest amounting to ₱1.70 million classified as operating activity in 2020.

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Non-cash changes | | | |
| | January 1, 2019 | Transition Adjustment | January 1, 2019 as restated | Net Cash flows | Interest Accretion | Net Additions/ Reclassification | Foreign exchange movement | December 31, 2019 |
| Loans payable | ₱36,806,000 | ₱– | ₱36,806,000 | (₱26,745,936) | ₱– | ₱– | (₱10,060,064) | ₱– |
| Finance lease payable | 1,078,479 | (1,078,479) | – | – | – | – | – | – |
| Lease liabilities | – | 49,386,386 | 49,386,386 | (36,117,495)* | 2,943,964 | 28,530,731 | – | 44,743,586 |
| Other noncurrent liability | 4,500,000 | – | 4,500,000 | – | – | (4,500,000)** | – | – |
| | ₱42,384,479 | ₱48,307,907 | ₱90,692,386 | (₱62,863,431) | ₱2,943,964 | ₱24,030,731 | (₱10,060,064) | ₱44,743,586 |

*Net cash flows represent the payments of principal portion of the lease liabilities amounting to ₱33.17 million classified as financing activity and interest amounting to ₱2.94 million classified as operating activity in 2019.
**Other noncurrent liability is reclassified to current liability under "Trade and other payables" as of December 31, 2019.

## 28. Covid-19 Outbreak

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to May 15, 2020, for NCR and other areas in Luzon which were considered high-risk areas. While the low-risk to moderate-risk areas in Luzon and the rest of the country were placed under general community quarantine (general community quarantine (GCQ) or a less strict quarantine). Subsequent to May 15, 2020, the NCR, Laguna and Cebu had been subjected to modified enhance community quarantine (MECQ). Beginning June 1, 2020, NCR and certain areas were put under GCQ until June 15, 2020, which was subsequently extended to July 31, 2020. Thereafter, NCR, Bulacan, Cavite, Laguna, and Rizal were then put under

MECQ beginning August 4, 2020 until August 18, 2020. GCQ was imposed again in NCR and certain areas from August 19, 2020 until August 31, 2020. Subsequent to August 31, 2020, GCQ has been extended until December 31, 2020. On December 28, 2020, the government further extended the GCQ until January 31, 2021 in NCR and nine (9) other areas in Luzon and Visayas. The rest of the country was under modified GCQ until January 31, 2021. On January 29, 2021, NCR and certain areas in the Philippines continued to be under GCQ until February 28, 2021, while the rest of the country as under modified GCQ. On February 27, 2021, the GCQ in NCR and other nine areas in the Philippines is extended until March 31, 2021. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

Effective March 16, 2020, the Company has put in place precautionary measures following the guidelines prescribed by the government's Covid-19 Inter-Agency Task Force. These measures include setting up a work-from-home arrangement for Head Office employees and skeletal workforce at Head office; providing carpool services, meals and vitamin allowances to selected employees; and providing leniency on timekeeping and attendance for employees working in the Company's branches. In these ways, the Company can operate in a business-as-usual mode. The disinfection and sanitation of employees and the government-imposed health protocols (e.g. face masks and social distancing) in all work areas are well-observed. Daily health monitoring and monthly declaration of Covid-19 cases to Department of Labor and Employment (DOLE) are also observed.

The Covid-19 outbreak has had an impact on the Company's 2020 financial results, which include lower revenue turnovers during period of stricter lockdown. But as the lockdowns have eased in certain areas, the Company has been able to resume to its normal operations.

Considering the evolving nature of this outbreak, the Company will continue to monitor the situation.

## 29. Report on the Supplementary Information Required Under BSP Circular No. 1075

In compliance with BSP Circular No. 1075, the Company presents information on the total volume and value of remittance, money changing and foreign exchange transactions during the year.

The transactions facilitated by the Company in 2020 and 2019 are as follows:

| | | 2020 | |
|---|---|---|---|
| | No. of transactions | Amounts in USD | Amounts in PHP |
| International payout remittance transactions | | | |
| USD | 1,985,542 | | ₱24,967,541,381 |
| PHP | 451,554 | $159,904,989 | |
| International send-out remittance transactions | 208,670 | | 2,157,487,799 |
| Domestic payout remittance transactions | 260,038 | | 1,110,905,058 |
| Domestic send-out remittance transactions | 157,924 | | 713,288,543 |
| Foreign currencies bought | 269,914 | 2,509,301,056 | |
| Foreign currencies sold | | | |
| USD | 28,438 | 2,603,335,073 | |
| Other third currencies | 5,813 | 114,377,631 | |

| | 2019 | | |
|---|---|---|---|
| | No. of transactions | Amounts in USD | Amounts in PHP |
| International payout remittance transactions | | | |
| USD | 1,968,554 | | ₱22,962,367,902 |
| PHP | 586,235 | $183,386,131 | |
| International send-out remittance transactions | 327,732 | | 2,836,721,597 |
| Domestic payout remittance transactions | 604,460 | | 1,995,655,508 |
| Domestic send-out remittance transactions | 335,876 | | 1,197,406,793 |
| Foreign currencies bought | 372,584 | 11,274,595,041 | |
| Foreign currencies sold | | | |
| USD | 28,176 | 2,462,980,519 | |
| Other third currencies | 6,320 | 117,900,227 | |

The Company has no transactions involving virtual currencies.

The following ratios measure the financial performance of the Company:

| | **2020** | 2019 |
|---|---|---|
| Return on average equity* | **2.71%** | (2.26%) |
| Return on average assets** | **1.99%** | (1.71%) |

*Net income / (loss) after tax divided by average total equity.
**Net income / (loss) after tax divided by average total asset.
*The ratios are based on the respective statements of income accounts divided by average balance which is equal to the sum of beginning and ending balances of the respective statements of financial statement accounts as of the end of the period divided by two.*

## 30. Report on the Supplementary Information Required Under Revenue Regulations (RR) 15-2010

In compliance with RR 15-2010, the Company presents information on taxes, duties and license fees paid or accrued during the taxable year.

The Company reported and/or paid the following types of taxes for the taxable year ended December 31, 2020:

Value-Added Tax
The Company's sales are subject to output value-added tax (VAT) while its purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.00%.

Details of the Company's net sales/receipts for the year ended December 31, 2020 and output and input VAT as of December 31, 2020 are as follows:

a. Net Sales/Receipts and Output VAT

| | Net Sales/ Receipts | Output VAT |
|---|---|---|
| Taxable sales: | | |
| Sale of services | ₱385,097,871 | ₱46,211,744 |
| Zero-rated sale of services | 224,823,302 | – |
| | ₱609,921,173 | ₱46,211,744 |

"Zero-rated sale of services" pertains to gross revenues from its remittance business with Western Union, which are entitled to VAT zero-rating under Section 108(B)(2) of the 1997 Tax Code, lodged under "Revenue from contracts with customers" in the books of the Company.

On the other hand, “Sale of services” pertains to the gross revenues from other sources that is lodged under “Revenue from contracts with customers” and “Income from foreign exchange trading” in the books of the Company.

The Company has no VAT-exempt sales in 2020.

b. Input VAT

| | |
|---|---|
| Balance at January 1, 2020 | ₱55,843,166 |
| Input VAT on current year’s domestic purchases/payments | 12,906,240 |
| Input VAT on capital goods subject to amortization | 960,610 |
| | 69,710,016 |
| Less: | |
| Amounts filed as claims for tax credit/refund during the prior periods | 55,843,166 |
| Amounts claimed as deduction from output VAT payments | 13,591,649 |
| Amounts denied and written-off during the year | – |
| Balance at December 31, 2020 | ₱275,200 |

The remaining balance represents the unamortized portion of deferred input VAT as of December 31, 2020.

Withholding Taxes
Details of total remittances and withholding taxes payable as of December 31, 2020 are as follows:

| | Total remittances | Balance |
|---|---|---|
| Withholding taxes on compensation and benefits | ₱13,355,336 | ₱2,557,461 |
| Expanded withholding taxes | 10,864,328 | 1,018,587 |
| Final withholding taxes | 264,834 | – |
| | ₱24,484,497 | ₱3,576,048 |

Other Taxes and Licenses
In 2020, this includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the ‘Taxes and licenses’ account in profit or loss.

Details consist of the following:

| | |
|---|---|
| Business permits | ₱8,106,308 |
| Documentary stamps taxes | 2,791,719 |
| Other taxes and licenses | 94,211 |
| Total | ₱10,992,238 |

Tax assessments and cases
As at December 31, 2020, the Company has not received any final assessment notice from the BIR and it has no pending tax cases, litigation and/or prosecution in any courts or bodies outside the BIR.