

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

A	B	C	A	P	I	T	A	L	A	N	D	I	N	V	E	S	T	M	E	N	T	C	O	R	P
O	R	A	T	I	O	N	A	N	D	S	U	B	S	I	D	I	A	R	Y						

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

U	N	I	T	S	1	2	1	0	-	1	2	1	2	A	N	D	U	N	I	T	S	1	9	1	1
-	1	9	1	2	,	P	S	E	T	O	W	E	R	,	5	T	H	A	V	E	N	U	E	C	
O	R	N	E	R	2	8	T	H	S	T	R	E	E	T	,	B	O	N	I	F	A	C	I	O	G
L	O	B	A	L	C	I	T	Y	,	T	A	G	U	I	G	C	I	T	Y						

Form Type

A	A	F	S
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Department requiring the report

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Secondary License Type, if Applicable

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**COMPANY INFORMATION**

Company's Email Address	Company's Telephone Number	Mobile Number
hrad@abcapital.com.ph	8898-7555	-
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
13	06/20	12/31

**CONTACT PERSON INFORMATION**

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number

**CONTACT PERSON'S ADDRESS**

**Units 1210-1212 and Units 1911-1912, PSE Tower, 5th Avenue corner 28th Street,  
Bonifacio Global City, Taguig City**

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

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



## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and Stockholders  
AB Capital and Investment Corporation  
Units 1210-1212 and Units 1911-1912, PSE Tower  
5th Avenue corner 28th Street,  
Bonifacio Global City, Taguig City

### **Report on the Consolidated and Parent Company Financial Statements**

#### **Opinion**

We have audited the consolidated financial statements of AB Capital and Investment Corporation and its subsidiary (the Group) and the parent company financial statements of AB Capital and Investment Corporation (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2019 and 2018, and the consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for the years then ended, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2019 and 2018, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### **Basis for Opinion**

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

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

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



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

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

### **Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent 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 Group's and the Parent 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 consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

The supplementary information required under Revenue Regulations 15-2010 for purposes of filing with the Bureau of Internal Revenue is presented by the management of AB Capital and Investment Corporation in a separate schedule. Revenue Regulations 15-2010 require the information to be presented in the notes to financial statements. Such information is not a required part of the basic financial statements. The information is also not required by Revised Securities Regulation Code Rule 68. Our opinion on the basic financial statements is not affected by the presentation of the information in a separate schedule.

SYCIP GORRES VELAYO & CO.

*Janet A. Paraiso*

Janet A. Paraiso  
Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-3 (Group A),

June 19, 2018, valid until June 18, 2021

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125203, January 7, 2020, Makati City

June 25, 2020



**AB CAPITAL AND INVESTMENT CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF FINANCIAL POSITION**

	Consolidated		Parent Company	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<b>ASSETS</b>				
Cash and cash equivalents (Note 6)	<b>₱396,073,899</b>	₱374,056,902	<b>₱7,338,404</b>	₱13,482,361
Financial assets at fair value through profit or loss (Note 7)	<b>30,514</b>	32,364	—	—
Financial assets at fair value through other comprehensive income (Note 7)	<b>9,939,280</b>	9,880,180	—	—
Investment securities at amortized cost (Notes 7 and 23)	<b>277,775,189</b>	178,674,512	<b>277,775,189</b>	178,674,512
Receivables (Notes 8 and 24)	<b>281,236,337</b>	330,524,036	<b>100,014,373</b>	97,047,926
Investment in a subsidiary (Note 9)	—	—	<b>106,715,694</b>	106,715,694
Property and equipment (Note 10)	<b>14,918,772</b>	24,537,756	<b>6,279,351</b>	7,059,851
Investment property (Note 11)	<b>6,314,435</b>	—	—	—
Retirement asset (Note 22)	—	320,528	—	—
Deferred tax asset (Note 21)	<b>1,241,043</b>	1,011,405	<b>869,928</b>	773,147
Goodwill (Note 12)	<b>8,877,294</b>	8,877,294	—	—
Right-of-use asset (Note 19 and 24)	<b>25,275,947</b>	—	<b>11,765,770</b>	—
Other assets (Note 13)	<b>35,983,514</b>	34,013,866	<b>11,620,154</b>	11,858,906
	<b>₱1,057,666,224</b>	₱961,928,843	<b>₱522,378,863</b>	₱415,612,397
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses (Notes 14)	<b>₱522,356,946</b>	₱529,835,290	<b>₱31,346,676</b>	₱29,574,788
Notes payable (Note 15)	<b>165,926,645</b>	70,000,000	<b>165,926,645</b>	70,000,000
Dividend payable (Notes 17)	<b>662,088</b>	662,088	<b>662,088</b>	662,088
Retirement liability (Note 22)	<b>3,725,997</b>	1,383,116	<b>1,579,020</b>	1,383,116
Lease liability (Note 19)	<b>26,452,365</b>	—	<b>12,312,085</b>	—
Other liabilities (Note 16)	<b>3,038,940</b>	3,521,166	<b>1,048,632</b>	1,002,782
	<b>722,162,981</b>	605,401,660	<b>212,875,146</b>	102,622,774
<b>Equity</b>				
Capital stock (Note 17)	<b>203,258,100</b>	203,258,100	<b>203,258,100</b>	203,258,100
Additional paid-in capital (Note 17)	<b>131,387,229</b>	131,387,229	<b>131,387,229</b>	131,387,229
Retained earnings (deficit) (Note 17)	<b>2,416,403</b>	22,030,224	<b>(24,151,854)</b>	(21,630,273)
Net unrealized loss on financial assets at fair value through other comprehensive income (Note 7)	<b>(305,393)</b>	(346,879)	—	—
Remeasurement gain (loss) on retirement liability (Note 22)	<b>(1,253,096)</b>	198,509	<b>(989,758)</b>	(25,433)
	<b>335,503,243</b>	356,527,183	<b>309,503,717</b>	312,989,623
	<b>₱1,057,666,224</b>	₱961,928,843	<b>₱522,378,863</b>	₱415,612,397

See accompanying Notes to Financial Statements.



**AB CAPITAL AND INVESTMENT CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF COMPREHENSIVE INCOME**

	Consolidated		Parent Company	
	Years Ended December 31			
	2019	2018	2019	2018
<b>INCOME</b>				
Commissions (Note 24)	₱53,710,310	₱60,650,938	₱-	₱-
Trust fees (Notes 23 and 24)	44,279,225	34,539,908	45,131,329	35,059,761
Interest and finance income (Note 18)	35,762,098	9,792,323	15,739,716	5,342,454
Trading and securities gains (losses) - net (Note 7)	(1,179,250)	7,123,494	-	-
Management and administration fees (Note 24)	1,686,813	2,010,300	1,686,813	2,010,300
Rental income (Note 11)	1,941,162	-	-	-
Dividend income (Note 7 and 17)	822,009	742,000	14,000,000	-
Miscellaneous	755,026	7,238,462	334,559	192,708
	<b>137,777,393</b>	<b>122,097,425</b>	<b>76,892,417</b>	<b>42,605,223</b>
<b>EXPENSES</b>				
Compensation and fringe benefits (Notes 22 and 24)	62,090,759	63,546,489	39,330,172	38,163,841
Commissions (Note 24)	16,531,910	15,217,153	-	-
Management and other professional fees (Note 24)	10,204,195	12,550,707	8,572,508	11,425,713
Occupancy and equipment-related costs (Note 19)	6,649,480	7,651,232	2,360,039	3,159,205
Stock exchange fees	5,697,277	6,651,236	-	-
Communication	6,740,446	6,551,334	1,013,484	893,393
Fuel and lubricants	4,381,442	4,564,157	2,507,033	2,500,687
Taxes and licenses	3,680,194	2,828,784	3,156,754	2,296,745
Depreciation and amortization (Note 10, 11 and 19)	12,127,932	2,184,615	5,335,961	604,396
Interest and finance charges (Note 19)	11,627,630	1,041,271	10,524,799	1,041,271
Entertainment, amusement and recreation	332,320	264,782	10,809	34,783
Miscellaneous (Note 20)	12,579,050	11,718,518	5,487,973	5,139,321
	<b>152,642,635</b>	<b>134,770,278</b>	<b>78,299,532</b>	<b>65,259,355</b>
<b>LOSS BEFORE INCOME TAX</b>	<b>(14,865,242)</b>	<b>(12,672,853)</b>	<b>(1,407,115)</b>	<b>(22,654,132)</b>
<b>PROVISION FOR INCOME TAX</b> (Note 21)	<b>4,748,579</b>	<b>1,740,752</b>	<b>1,114,466</b>	<b>(1,865,897)</b>
<b>NET LOSS</b>	<b>(19,613,821)</b>	<b>(14,413,605)</b>	<b>(2,521,581)</b>	<b>(20,788,235)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>				
Remeasurement gain (loss) on retirement liability, net of tax (Note 22)	(1,451,606)	444,607	(964,325)	299,645
Net changes in fair value of financial assets at fair value through other comprehensive income, net of tax (Note 7)	41,486	(255,934)	-	-
	<b>(1,410,120)</b>	<b>188,673</b>	<b>(964,325)</b>	<b>299,645</b>
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(₱21,023,941)</b>	<b>(₱14,224,932)</b>	<b>(₱3,485,906)</b>	<b>(₱20,488,590)</b>

See accompanying Notes to Financial Statements.



**AB CAPITAL AND INVESTMENT CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF CHANGES IN EQUITY**

	Consolidated						
	Capital Stock (Note 17)	Paid-in Capital (Note 17)	Additional Retained Earnings (Deficit) (Note 17)	Net Unrealized Loss on Financial Assets at Fair Value through Other Comprehensive Income (Note 17)	Net Unrealized Loss on Available-For-Sale Financial Assets (Note 17)	Remeasurement Gain (loss) on Retirement Liability (Note 22)	Equity
<b>Balances at January 1, 2019</b>	₱203,258,100	₱131,387,229	₱26,985,795	(₱4,955,571)	₱—	₱198,509	₱356,527,183
Net loss	—	—	(19,613,821)	—	—	—	(19,613,821)
Other comprehensive income (loss)	—	—	—	41,486	—	(1,451,606)	(1,410,120)
Total comprehensive income (loss)	—	—	(19,613,821)	41,486	—	(1,451,606)	(21,023,941)
<b>Balances at December 31, 2019</b>	₱203,258,100	₱131,387,229	₱26,985,795	(₱305,393)	₱—	(₱1,253,097)	₱335,503,242
<b>Balances at January 1, 2018</b>	₱203,258,100	₱131,387,229	₱26,348,332	₱—	(₱90,945)	(₱246,098)	₱370,752,115
Effect of adoption of PFRS 9, <i>Financial Instruments</i>	—	—	—	—	90,945	—	—
<b>Balances at January 1, 2018, as restated</b>	203,258,100	131,387,229	26,348,332	(90,495)	—	(246,098)	370,752,115
Net loss	—	—	10,095,497	(90,495)	—	—	(14,413,605)
Other comprehensive income (loss)	—	—	—	(255,934)	—	—	(14,413,605)
Total comprehensive income (loss)	—	—	(14,413,605)	(255,934)	—	444,607	188,673
Appropriation of retained earnings (Note 17)	—	—	(14,413,605)	(255,934)	—	444,607	(14,224,932)
<b>Balances at December 31, 2018</b>	₱203,258,100	₱131,387,229	637,463	(₱346,879)	₱—	₱198,509	₱356,527,183

See accompanying Notes to Financial Statements.



**AB CAPITAL AND INVESTMENT CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF CHANGES IN EQUITY**

	Parent Company				Remeasurement Gain (Loss) on Retirement Liability (Note 22)	Equity
	Capital Stock (Note 17)	Additional Paid-in Capital (Note 17)	Retained Earnings (Deficit) (Note 17)	Unappropriated		
			Appropriated			
<b>Balances at January 1, 2019</b>	₱203,258,100	₱131,387,229	₱7,634,845	(₱29,265,118)	(₱25,433)	₱312,989,623
Net loss	-	-	-	(2,521,581)	-	(2,521,581)
Other comprehensive income	-	-	-	-	(964,325)	(964,325)
Total comprehensive income (loss)	-	-	-	(2,521,581)	(964,325)	(3,485,906)
<b>Balances at December 31, 2019</b>	₱203,258,100	₱131,387,229	₱7,634,845	(₱31,786,699)	(₱989,758)	₱309,503,717
<b>Balances at January 1, 2018</b>	₱203,258,100	₱131,387,229	₱7,634,845	(₱8,476,883)	(₱325,078)	₱333,478,213
Net loss	-	-	-	(20,788,235)	-	(20,788,235)
Other comprehensive income	-	-	-	-	299,645	299,645
Total comprehensive income (loss)	-	-	-	(20,788,235)	299,645	(20,488,590)
<b>Balances at December 31, 2018</b>	₱203,258,100	₱131,387,229	₱7,634,845	(₱29,265,118)	(₱25,433)	₱312,989,623

See accompanying Notes to Financial Statements.





**AB CAPITAL AND INVESTMENT CORPORATION AND SUBSIDIARY**  
**STATEMENTS OF CASH FLOWS**

	Consolidated		Parent Company	
	Years Ended December 31			
	2019	2018	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss before income tax	<b>(₱14,865,242)</b>	(₱12,672,853)	<b>(₱1,407,115)</b>	(₱22,654,132)
Adjustments for:				
Interest and finance income (Note 18)	<b>(35,762,098)</b>	(9,792,323)	<b>(15,739,716)</b>	(5,342,454)
Depreciation and amortization (Notes 10, 11 and 19)	<b>12,127,932</b>	2,184,615	<b>5,335,961</b>	604,396
Interest and finance charges	<b>11,627,630</b>	1,041,271	<b>10,524,799</b>	1,041,271
Net change in retirement liability (Note 22)	<b>2,909,665</b>	2,421,741	<b>1,951,414</b>	1,551,180
Unrealized foreign exchange gain	<b>(3,932)</b>	(130,628)	<b>(3,932)</b>	(130,628)
Dividend income (Note 17)	-	-	<b>(14,000,000)</b>	-
Loss on disposal of PPE and provision for probable losses (Notes 7 and 10)	<b>72,074</b>	(3,727,918)	<b>463</b>	-
Operating loss before changes in working capital	<b>(23,893,971)</b>	(20,676,095)	<b>(13,338,126)</b>	(24,930,367)
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables	<b>48,859,876</b>	(174,970,941)	<b>(3,243,050)</b>	(51,376,227)
Financial assets at fair value through profit or loss	<b>1,850</b>	94,487,516	-	-
Other assets	<b>(1,864,368)</b>	(2,687,720)	<b>97,746</b>	(516,986)
Increase (decrease) in:				
Accounts payable and accrued expenses	<b>(3,886,375)</b>	204,486,700	<b>1,431,248</b>	3,339,784
Other liabilities	<b>(483,115)</b>	1,077,532	<b>45,850</b>	(61,595)
Net cash provided by (used in) operations	<b>18,733,897</b>	101,716,992	<b>(15,006,332)</b>	(73,545,391)
Interest received	<b>24,753,221</b>	7,892,303	<b>4,658,639</b>	592,308
Income taxes paid (Note 21)	<b>(4,378,879)</b>	(3,816,622)	<b>(802,964)</b>	(430,733)
Interest paid	<b>(11,281,991)</b>	(916,688)	<b>(9,218,742)</b>	(916,688)
Contributions to retirement fund (Note 22)	<b>(4,189,357)</b>	(815,220)	<b>(3,133,117)</b>	-
Net cash provided by (used in) operating activities	<b>23,636,891</b>	104,060,765	<b>(23,502,516)</b>	(74,300,504)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of:				
Investment securities at amortized cost (Note 7)	<b>(267,342,997)</b>	(175,483,711)	<b>(267,342,997)</b>	(175,483,711)
Property and equipment (Note 10)	<b>(2,256,892)</b>	(15,183,191)	<b>(1,473,475)</b>	(5,424,264)
Software asset	<b>(355,715)</b>	(1,285,714)	-	-
Proceeds from:				
Maturity of financial assets at amortized cost (Note 7)	<b>179,600,000</b>	169,800,000	<b>179,600,000</b>	169,800,000
Dividends (Note 17)	-	-	<b>14,000,000</b>	-
Disposal of property and equipment (Note 10)	<b>8,308</b>	-	-	-
Sale of financial assets at fair value through other comprehensive income (Note 7)	<b>180</b>	-	-	-
Net cash used in investing activities	<b>(90,347,116)</b>	(22,152,616)	<b>(75,216,472)</b>	(11,107,975)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Availment of notes payable	<b>1,618,481,964</b>	355,079,625	<b>1,618,481,964</b>	355,079,625
Payments for:				
Notes payable (Note 15)	<b>(1,522,555,319)</b>	(285,079,625)	<b>(1,522,555,319)</b>	(285,079,625)
Lease liability (Note 19)	<b>(7,203,355)</b>	-	<b>(3,355,546)</b>	-
Net cash provided by financing activities	<b>88,723,290</b>	70,000,000	<b>92,571,009</b>	70,000,000
<b>EFFECT OF EXCHANGE RATE CHANGES IN CASH AND CASH EQUIVALENTS</b>				
	<b>3,932</b>	130,628	<b>3,932</b>	130,628

(Forward)



	Consolidated		Parent Company	
	Years Ended December 31			
	2019	2018	2019	2018
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>₱22,016,997</b>	₱152,038,777	<b>(₱6,143,957)</b>	(₱15,277,851)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>374,056,902</b>	222,018,125	<b>13,482,361</b>	28,760,212
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>396,073,899</b>	374,056,902	<b>₱7,338,404</b>	₱13,482,361
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>				
Interest received	<b>₱24,753,221</b>	₱7,892,303	<b>₱4,658,639</b>	₱592,308
Interest paid	<b>(11,281,991)</b>	(916,688)	<b>(9,218,742)</b>	(916,688)

*See accompanying Notes to Financial Statements.*



# **AB CAPITAL AND INVESTMENT CORPORATION AND SUBSIDIARY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **1. Corporate Information**

AB Capital and Investment Corporation (ABCIC or the Parent Company) was incorporated in the Philippines on January 18, 1980. The Parent Company and its subsidiary (the Group) provides services such as investment banking, equity and debt underwriting, loan syndication and arrangements, financial advisory and securities dealership. The parent company of ABCIC and ultimate parent company of the Group is Vicsal Investment, Inc. (VII) and Vicsal Development Corporation (VDC), respectively.

The Company's registered address and principal place of business is at Units 1210-1212 & 1911-1912 PSE Tower, 5th Ave. corner 28th Street, Bonifacio Global City, Taguig City.

### **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVTOCI) which have been measured at fair value. The consolidated financial statements of the Group and the separate financial statements of the Parent Company are presented in Philippine Peso (₱), which is also the functional currency of the Group and of the Parent Company. All values are rounded to the nearest peso except when otherwise indicated.

#### Statement of Compliance

The accompanying consolidated financial statements of the Group and the separate financial statements of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

#### Presentation of Financial Statements

The Group and the Parent Company present its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve (12) months after the reporting date (current) and more than twelve (12) months after the reporting date (non-current) is presented in Note 26.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously (see accounting policy on Offsetting of Financial Instruments). Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and is specifically disclosed in the accounting policies of the Group.

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and AB Capital Securities, Inc. (ABCSI or the Subsidiary), a wholly-owned subsidiary engaged in the business of securities brokerage. ABCSI is incorporated in the Philippines, with presentation and functional currency of Philippine Peso.



The Subsidiary is fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of a subsidiary ceases when control is transferred out of the Parent Company. The consolidated financial statements are prepared for the same reporting year as the Parent Company's financial statements using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full upon consolidation.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

In the separate financial statements of the Parent Company, investment in a subsidiary is carried at cost less any accumulated impairment in value. Dividends earned on this investment are recognized in the Parent Company's profit or loss as declared by the respective Board of Directors (BOD) of the Subsidiary.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement
- Annual Improvements to PFRSs 2015-2017 Cycle
- Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity
- Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization

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

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

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



- How an entity considers changes in facts and circumstances

The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its assessment, in consultation with its tax counsel, that it has no uncertain tax treatments. Accordingly, the adoption of this Interpretation did not have an impact on the Group's financial statements.

- PFRS 16, Leases

PFRS 16 supersedes PAS 17, Leases, Philippine Interpretation IFRIC 4, Determining whether an Arrangement contains a Lease, Philippine Interpretation SIC-15, Operating Leases-Incentives and Philippine Interpretation SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effect of the adoption of PFRS 16 as at 1 January 2019 is, as follows:

	Consolidated	Parent Company
Assets		
Right-of-use asset, net	₱31,592,471	₱14,707,213
Liabilities		
Lease liabilities	31,592,471	14,707,213

The Group has a lease contract for its office space with Vicsal Development Corporation from December 26, 2018 to December 25, 2023.

In December 2018, the Parent Company entered into a sublease agreement for a portion of the same office space, with AB Capital Securities, Inc. (the Subsidiary), as the lessee.



Before the adoption of PFRS 16, the Group classified both lease and sublease at the inception date as an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases (as a lessee) except for short-term leases and leases of low-value assets. (See Note 2, Leases)

The Group also has lease contracts for its branch's office space in Cebu, Alabang, Makati and Binondo where short-term lease exemption had been applied.

*Leases previously accounted for as operating leases*

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use asset were recognized based on the amount equal to the lease liabilities, adjusted for the lease payments recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The lease liability at as January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follows:

	<b>Consolidated</b>	<b>Parent</b>
<b>Operating lease commitments as at December 31, 2018</b>	<b>₱15,593,225</b>	<b>₱7,219,790</b>
Add: Lease payments relating to renewal periods not included in operating lease commitments as of 31 December 2018	30,635,472	10,539,621
Less: Commitments relating to short term leases	2,916,032	2,058,402
<b>Operating lease commitments as at January 1, 2019</b>	<b>43,312,665</b>	<b>15,701,009</b>
Weighted average incremental borrowing rate at January 1, 2019	7.7%	7.7%
<b>Lease liabilities recognized at January 1,2019</b>	<b>₱31,592,471</b>	<b>₱14,707,213</b>

The adoption of PFRS 16 did not have an impact on equity as at January 1, 2019 since the Group elected to measure the right-of-use assets at an amount equal to the lease liability.

**Significant Accounting Policies**

Fair Value Measurement

The Group measures financial instruments at fair value at each statement of financial position date. 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For financial instruments that are recognized at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level 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 Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Cash and Cash Equivalents

Cash includes cash on hand and in banks and due from BSP. Cash equivalents include short-term placements and highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the dates of placement and that are subject to an insignificant risk of change in value.

#### Financial Instruments - Initial Recognition and Subsequent Measurement

##### *Date of recognition*

The Group 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 trade date, which is the date that the Group commits to purchase or sell the asset.



*Initial recognition of financial instruments*

All financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVTPL, the initial measurement of financial assets and financial liabilities includes transaction costs.

*Classification and Subsequent Measurement of financial instruments*

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion'). The classification and measurement of financial assets are as follows: financial assets at amortized cost, financial assets at FVTPL and financial assets at FVTOCI.

As of December 31, 2019 and 2018, the Group has equity financial assets classified as at FVTPL and as at FVTOCI and its cash and cash equivalents, receivables (accounts receivables, loans receivables and advances to employees), investments in government debt securities and other assets – security deposit are classified as Financial assets at amortized cost.

*Financial assets at FVTPL*

Debt instruments that do not meet the amortized cost or FVTOCI criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition. Derivative assets classified as at FVTPL are those that are not designated under hedge accounting treatment.

Financial assets at FVTPL are recorded in the statement of financial position at fair value, with changes in the fair value included under the 'Trading and securities gains (losses) - net' account in profit or loss. Interest earned is reported in profit or loss under 'Interest and finance income' while dividend income is reported in profit or loss under 'Dividend income' when the right to receive payment has been established.

*Financial assets at FVTOCI*

Equity securities designated as at FVTOCI are those that the Group made an irrevocable election to present in other comprehensive income the subsequent changes in fair value. The designation is made on instrument-by-instrument basis. Equity securities at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income. When the asset is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is not reclassified to profit or loss, but is reclassified directly within equity. Equity securities at FVTOCI are not subject to impairment assessment.

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

*Financial assets at amortized cost*

A debt financial asset is measured at amortized cost if (i) the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the instrument 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 allowance for credit losses, if any. 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' in the profit or loss and is calculated by applying the EIR to the gross carrying amount of the financial asset. The losses arising from impairment are recognized in 'Provision for credit losses' under profit or loss in the statement of comprehensive income.

#### *Other financial liabilities*

This accounting policy relates to the statement of financial position caption 'Accounts payable and accrued expenses', Notes payable, 'Dividend payable' and 'Other liabilities' which are not designated as at FVTPL where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

#### Impairment of Financial Assets

PFRS 9 requires the Group 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 twelve (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.

#### *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 Group 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 Group 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. The Group recognizes lifetime ECL for Stage 3 debt financial assets.

#### *Write-off Policy*

A financial asset is written off when there is no reasonable expectation of recovering the contractual cashflows.

#### *Definition of "default" and "restored"*

The Group classifies receivables, or any financial asset as in default when it is credit impaired or becomes past due on its contractual payments for more than 90 days. As part of a qualitative



assessment of whether a customer is in default, the Group considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

#### *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 Group's aging information, the borrower becomes past due for over 30 days. Further, the Group assumes that the credit risk of a debt financial asset 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 Group shall revert to recognizing a 12-month ECL.

#### *Simplified approach*

For receivable from customers, the Group applies a simplified approach in calculating ECL which does not require tracking of changes in credit risk, but instead recognized a loss allowance based on lifetime ECL at each reporting date. The Group establishes an impairment analysis based on its historical credit loss experience, adjusted for forward-looking factors specific to the counterparties and the economic environment.

### Derecognition of Financial Assets and Liabilities

#### *Financial assets*

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

#### *Financial liabilities*

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

### Offsetting of Financial Instruments

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

### Equity Investments

#### *Investment in a subsidiary*

A subsidiary is an entity in which the Parent Company has the power to govern the financial and operating policies and generally accompanying a shareholding of more than one half of the voting



rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

In the parent company financial statements, the Parent Company's investment in a subsidiary is carried at cost less any impairment in value. Under the cost method, the Parent Company recognizes income from the investment only to the extent that the investor receives distributions from the accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a return of investment and are recognized as a reduction of cost of the investment.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any accumulated impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are normally charged to operations 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 the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives (EUL) of the respective assets. Leasehold improvements are amortized over the shorter between the lease terms taking into consideration the expected renewal of leases and estimated useful lives of the improvements. The estimated useful lives of property and equipment follow:

Condominium units	40 years
Transportation equipment	5 years
Furniture and fixtures	3-5 years
Leasehold improvements	5 years or the terms of the related leases, whichever is shorter

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

Transfers are made from properties and equipment when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made to property and equipment when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. In 2019, the Group reclassified its condominium units from 'Property and equipment' to 'Investment property' due to the change in use of the asset. (See Note 11, *Investment Property*)

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired



unless the fair value of such asset cannot be measured, in which case, the investment property acquired is measured at the carrying amount of the asset given up.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and allowance for impairment losses, whereas, non-depreciable investment properties are carried at cost less allowance for impairment losses.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations when the costs are incurred.

Depreciation of condominium unit is calculated on a straight-line basis using the useful life of 40 years from the time of acquisition and recorded under 'Depreciation'.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income as 'Miscellaneous' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. In 2019, the Group transferred its condominium units previously used as office space from 'Property and equipment' to 'Investment property' due to change in use of the asset.

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost is lower than the fair value of net assets acquired, the difference is recognized in profit or loss. Following initial recognition, goodwill is measured at cost less any allowance for impairment losses.

#### Other Intangible Assets

##### *Exchange trading right*

The exchange trading right, included in 'Other assets', was acquired, together with Philippine Stock Exchange (PSE or the Exchange) shares, in exchange for the exchange membership seat under the conversion program of the PSE. The exchange trading right is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation for the value of the PSE shares) less allowance for impairment loss, if any. The Group does not intend to sell the exchange trading right in the near future.

The exchange trading right is deemed to have an indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. It is tested annually for any impairment in its realizable value. Any impairment loss is charged directly in profit or loss (see accounting policy on Impairment of Nonfinancial Assets).

##### *Software costs*

Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over 3 years on a straight-line basis.



Costs associated with maintaining the computer software programs are recognized as expense when incurred.

#### Impairment of Nonfinancial Assets

*Property and equipment, investment in a subsidiary, exchange trading right, software costs and right-of-use asset*

The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher between an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

#### *Goodwill*

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

#### Equity

The Group records capital stock at par value. The excess of the total contributions received over the aggregate par value of the equity shares are recorded as 'Additional paid-in capital.' The Group considers the underlying substance and economic reality of its own equity instrument and not merely its legal form in determining its proper classification.

Retained earnings represent accumulated earnings and losses of the Group less dividends declared.

#### Revenue Recognition

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires the Group to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- 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 obligation in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria that must be met before revenue is recognized across the Group's revenue streams:

#### *Commissions*

The Subsidiary is in the business of rendering brokerage services, which include trade execution and clearing services, to various customers. Management assessed that these services are considered single performance obligation as they are both inputs to the combined output of security trading.

Revenue from commissions is recognized at a point in time at which the Subsidiary transfers control of the service to the customer. The Subsidiary performs the service of providing the customer with the ability to acquire or dispose of rights to obtain the economic benefits of a financial instrument (e.g., stocks). Therefore, management assessed that the transfer of control of the performance obligation generally occurs on the trade date because that is when the underlying financial instrument (for a purchase) or purchaser (for a sale) is identified and the pricing is agreed upon (i.e., the Subsidiary has identified the counterparty and enters into the contract on behalf of the customer). On the trade date, the customer has obtained control of the service because it can direct the use of, and obtain substantially all of the remaining benefits from, the asset that comes from the trade service.

#### *Trust fees, management and administration fees*

The Parent Company charges its customers and affiliates for the services rendered in connection with the management of investments and trust assets. The Parent Company also charges its customers administration fees as reimbursement of its expenses and disbursements in the management of the investments. The Parent Company assessed that it is acting as the principal with its arrangement to its affiliates. The service fees are recognized over time, as the related services are rendered. The Parent Company has applied the "right to invoice" practical expedient in measuring the revenue recognized over time. These are presented under "Trust fees" and "Management and administration fees" in profit or loss.

#### *Miscellaneous*

Miscellaneous income consists of various income earned by the Group from several activities such as service income from initial public offering and tender offer.

#### *Revenues scoped in under PFRS 9*

#### *Interest and finance income*

Interest on loans and receivables and interest-bearing placements and securities is recognized as the interest accrues using the effective interest method.

#### *Dividend income*

Dividend income is recognized when the Group's right to receive payment is established, which is generally when shareholders of the issuer approve the dividend.

#### *Trading and securities gains (losses) - net*

Trading and securities gain or loss represents results arising from trading activities including all gains and losses from changes in fair value of financial assets at FVTPL.



*Revenues related to lease contracts within the scope of PFRS 16*

*Rental income*

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. Rental income arising from operating lease is accounted for on a straight-line basis over the lease term and is included under 'Rental income' in the statement of profit or loss due to its operating nature, except for contingent rental income which is recognized when it arises.

Expenses

Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Retirement Cost

The Group has a defined benefit retirement plan which entitles a participant to receive a lump sum benefit at a percentage of his final average monthly salary for every year of credited service upon retirement and upon voluntary or involuntary separation from the service under conditions provided for in the Group's retirement plan.

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

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

Retirement costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- 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 the plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in 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 other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.



Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### Employee Leave Entitlement

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

#### Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### *Group as a lessee (policy applicable beginning January 1, 2019)*

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

#### *Right-of-use assets*

Effective January 1, 2019, it is the Group's policy to recognize right-of-use assets as a separate line item in the statement of financial position. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position.

The Group 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..

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the asset.

The right-of-use assets are also subject to impairment. Refer to accounting policies on impairment on non-financial assets in this note.

#### *Lease liabilities*

At the commencement date of the lease, the Group 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 Group and payments of penalties for terminating a lease, if the lease term reflects the





Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the 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 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 in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### *Short-term leases*

The Group applies the short-term lease recognition exemption to its short-term leases (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 is recognized as expense on a straight-line basis over the lease term.

#### *Subsidiary as a lessor*

The Subsidiary classifies a lease as finance lease if it transfers substantially all the risks and rewards incidental to ownership of asset arising from the lease. Leases where the Subsidiary 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 Subsidiary also entered into arrangement to sublease a leased asset to its Parent Company while the original lease is in effect. In this arrangement, the Subsidiary 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 Subsidiary, 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.

For the sublease classified as a finance lease, the Subsidiary, 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 Subsidiary recognizes any difference between the right-of-use asset and the net investment in sublease in the profit or loss. Refer to policy on *Lease liabilities* above. The Subsidiary, as the sublessor, evaluates the net investment in sublease for impairment. Refer to policy on *Impairment of financial assets* above.

#### Income Taxes

##### *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 have been enacted or substantively enacted as at reporting date.



#### *Deferred tax*

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

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

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

Deferred tax assets and liabilities are measured at the tax rate 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 reporting date.

Current tax and deferred tax relating to items recognized directly in equity are recognized in equity and not in profit or loss.

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

#### Foreign Currency Translation and Transactions

Transactions denominated in foreign currency are recorded using the exchange rate prevailing as of the date of the transactions. Outstanding foreign currency-denominated monetary assets and liabilities at year-end are restated based on the Philippine Dealing System (PDS) closing rate at the reporting date and for foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Gains or losses arising from foreign currency transactions and translation adjustment of foreign currency-denominated assets and liabilities are charged against current operations.

#### Provisions

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

#### Contingencies

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 disclosed when an inflow of economic benefit is probable.



#### Fiduciary Activities

Assets and income arising from fiduciary activities, together with the related undertaking to return such assets to customers, are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

#### Events after the Reporting Date

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

#### New standards and interpretations that have been issued but not yet effective

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

#### *Effective beginning on or after January 1, 2020*

- Amendments to PFRS 3, Definition of a Business
- Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material

#### *Effective beginning on or after January 1, 2021*

- PFRS 17, Insurance Contracts

#### *Deferred effectivity*

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

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### **3. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent liabilities. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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 Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:



*Determining the timing of satisfaction of performance obligations*

Assessing when the Group 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 the assessment of the Group's management's, the performance obligations related to the services rendered by the Group to its customers and affiliates are satisfied over time. As the Group renders the services, the customers simultaneously receive and consume the benefits provided by the Group's performance of these services.

In measuring the revenue to be recognized over time, management assessed that output method faithfully depicts the Group's performance in transferring control of the services to the customers.

Since the Parent Company accrues the trust fees, management and administration fees as incurred based on a percentage of investments and net asset value, management believes that this right to consideration from a customer corresponds directly with the value to the customer of the Parent Company's performance completed to date. Accordingly, the Parent Company has applied the "right to invoice" practical expedient in measuring the revenue recognized over time.

As ABCSI recognizes commission income based on a certain percentage of every trade transaction, management believes that the right to consideration from a customer corresponds directly with the value to the customer of ABCSI's performance completed to date. As such, ABCSI recognizes commission income at trade date basis as securities transaction occur.

*Classification of financial assets*

Beginning January 1, 2018, the Group classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. The Group performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

*Determination of lease term of contracts with renewal option – Group as a lessee*

The Group has several lease contracts that include renewal option. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew (e.g., construction of significant leasehold improvements or significant customization to the leased asset).



## Estimates

### *a. Impairment of financial assets*

The measurement of impairment losses under PFRS 9 across categories of debt financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The carrying values of the investment securities at amortized costs, and loans and receivables of the Group and Parent Company are disclosed in Notes 7 and 8.

### *b. Impairment of nonfinancial assets*

#### *Goodwill and exchange trading right*

The Group assesses impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Group considers important which could trigger an impairment review on its nonfinancial assets include the following:

- Permanent decline in fair value of the asset;
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The Group normally applies the fair value less cost to sell as basis for impairment.

Exchange trading right and goodwill are tested for impairment annually and when circumstances indicate that the carrying value may be impaired. The carrying values of goodwill and exchange trading right are disclosed in Note 12 and Note 13, respectively.

### *c. Present value of retirement obligation*

The cost of defined benefit pension plan as well as the present value of the pension obligation is 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 statement of financial condition 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 salary increases and pension increases are based on expected future inflation rates for the specific country.

The details of assumptions used in the calculation and present value of retirement obligation are disclosed in Note 22.

*d. Recognition of deferred tax assets*

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

The Group did not recognize deferred tax on the temporary difference arising from NOLCO and MCIT as it believes that it is not probable that it will be able to fully utilize the NOLCO and MCIT prior to expiration. Refer to Note 21 for the details of recognized and unrecognized deferred tax assets of the Group and the Parent Company.

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#### 4. Financial Risk Management Objectives and Policies

##### Introduction

The Group's risk management framework is managed through a systematic application of management policies, procedures and practices to identify, measure and control risks inherent in the Group's activities. The purpose of the risk management framework is to: (a) disseminate the risk philosophy and policies to employees of the Group; (b) assist risk-taking business unit(s) in understanding and measuring risk/reward profile; and (c) develop a risk control infrastructure.

The key outcome of a structural framework of managing risk is to provide a more effective strategic planning to ensure opportunities are maximized and losses are minimized (integral facet of effective business practice and provides management with a deeper insight and wider perspective for effective management of the Group with a dynamic changing environment).

The Group's financial instruments include cash and cash equivalents, financial assets at FVTPL, financial assets at FVTOCI, investment securities at amortized cost, receivables, accounts payable and accrued expenses, notes payable, dividends payable and other liabilities.

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

- Credit risk
- Liquidity risk
- Market risk

##### Risk Management Structure

The BOD of the Parent Company has overall responsibility for the oversight of the Group's risk management process. The board committees, which are responsible for developing, managing and monitoring risk management policies in their specified areas, include the following:

- Audit Committee
- Credit Committee



#### *Audit Committee*

The main responsibility of the Audit Committee is to perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational and other risks of the Group. The Audit Committee checks all financial reports against compliance with the internal financial management policies, regulatory requirements and pertinent accounting standards. The Audit Committee likewise oversees the internal audit to ensure compliance with internal controls.

#### *Credit Committee*

The main responsibility of the Credit Committee is to determine and set the parameters for credit risk and asset concentration, and review compliance with such limits. The Credit Committee also reviews and approves the credit policy of the Group and ratifies all credits over the established limits (analyzes transactions that open the Group to significant and regular credit risk and recommends to the BOD the relevant parameters under which to operate such transactions).

#### Risk Measurement and Reporting System

The volatility of the financial and stock markets is the central focus of risk measurement methodologies (tool) and limits. It also gauges the returns the Group requires from its activities. The risk measurement framework strives to quantify the potential change in the value of the portfolio as a result of a change in the market risk factors (correlation between changes in value with market forces). This includes marking to market all open positions which the Group is exposed to; analyzing the sensitivity of the position or portfolio in relation to movement in the market to which it is exposed; and performing technical and fundamental analysis of equity investments including movement of the stock index, average turnover, market capitalization, fundamentals, earning projections and trends of a particular equity. These methodologies would enable management to assess and evaluate its risk tolerance in relation to its exposure to market risk factors.

Monitoring and control of risks are performed based on limits established by the Group on each counterparty transaction. This limit reflects the counterparty's capacity to pay based on the counterparty's risk profile, financial trends/projections, assets, reputation/integrity and the adequacy and enforceability of collateral under various scenarios and others.

The Group has a reliable information system that provides adequate and comprehensive data which covers all material risk-related activities which includes: a) internal financial, operational and compliance data that will permit actual exposures to be measured regularly against the established position and credit limits; and b) external market information about rate/price movements, events and conditions that are relevant to timely and informed decision making. This information is communicated to the business unit heads, BOD and applicable committees for monitoring and review in order to develop an action plan, at least on a monthly basis or when deemed appropriate.

#### Risk Mitigation

As part of its overall risk management, the Group follows a structural framework (risk management structure/process) in identifying, analyzing, evaluating and treating risks at all levels of the Group's operations. Specifically, it utilizes risk measurement tools, as mentioned above, to ensure that they maximize all opportunities and minimize losses in a dynamic changing environment.

The Group establishes credit limits and uses collaterals to reduce its credit risk. Furthermore, it maintains its records in a manner such that they adequately disclose, in a prompt and appropriate manner, the financial and business information which will enable management to identify, quantify and manage the Group's risk exposure and make timely and informed decisions (effective channels of communication to ensure adherence to all procedures and policies affecting risk exposures).



Excessive Risk Concentration

Concentration arises 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 the ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Group’s policies and procedures include the objectives of achieving a well-diversified portfolio that limits the Group’s risk to any particular group or industry.

The BOD reviews and sets 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 a financial loss.

The Group aims to develop long-term relationships with its clients. While it strives to fulfill its customers’ credit/funding needs, it will not compromise the interests of its stakeholders. Its philosophy is centered on the belief that the best way to continuously serve all its stakeholders is through the development of a high quality asset portfolio through prudent and well prepared credit/investment facilities that will provide the Group with an adequate return for the stakeholders.

The Group maintains a credit/investment risk rating system for proper evaluation, management and tracking inherent risks within the portfolio. The rating system begins with the risk of the borrower itself, and then adds the risk of the particular transaction to yield a risk rating. The risk of the borrower is basically the risk of the borrower’s industry and its position in that industry, combined with the characteristics of the borrower itself, earnings and operating cash flows, asset values, debt capacity, management, etc.

Beginning with the borrower risk, the ultimate risk rating is determined by considering transaction variables which would increase or decrease the risk such as collateral, guarantees, terms or tenor. The risk rating is the ‘key’ rating, as it is the risk of the facility or transaction.

The Group periodically monitors, reviews and evaluates its loan/investment portfolios and provides adequate reserves in accordance with regulatory guidelines and accounting standards.

*Maximum exposure to credit risk after collateral held or other credit enhancements*

The maximum exposure to credit risk is the carrying value at the reporting date of each class of financial assets of the Group except for receivables from customers for which the Group holds collateral as security.

An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below:

	Consolidated			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Receivables:				
Secured				
2019	P134,455,344	P1,858,665,242	P108,170	P134,347,174
2018	270,824,419	5,631,747,223	98	270,824,321





The Parent Company does not have financial guarantees and loan commitments and other credit related liabilities.

*Collateral and other credit enhancement*

The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

Eligible collaterals are shares listed and traded in the PSE and lodged with the Philippine Depository and Trust Corporation (PDTC) under the account of the Group.

Management regularly monitors the market value of collaterals and requests additional collateral in accordance with the underlying agreement. It is the Group's policy to dispose assets acquired in an orderly fashion. The proceeds of the sale of foreclosed assets (classified as 'Other assets') are used to reduce or repay the outstanding claim.

*Risk concentration of the maximum exposure to credit risk*

An industry sector analysis of the Group's and the Parent Company's maximum exposure to credit risk (net of allowance for credit losses) is as follows:

	Consolidated					
	Receivables*		Cash and Cash Equivalents**		Investments***	
	2019	2018	2019	2018	2019	2018
Personal activities	₱56,803,941	₱38,813,731	₱-	₱-	₱-	₱-
Hotel and restaurant	2,903,408	2,553,849	-	-	-	-
Financial intermediaries	130,532,908	53,288,120	396,017,899	374,000,902	-	-
Real estate, renting and business services	6,586,610	3,065,398	-	-	-	-
Government	-	9,187,461	-	-	277,775,189	178,674,512
Transportation, storage and communication	2,003,231	137,768,094	-	-	-	-
Others	83,011,105	86,352,093	-	-	-	-
<b>Total</b>	<b>₱281,841,203</b>	<b>₱331,028,746</b>	<b>₱396,017,899</b>	<b>₱374,000,902</b>	<b>₱277,775,189</b>	<b>₱178,674,512</b>

\* Consists of receivables and security deposit (lodged under 'Other assets') amounting to ₱604,866 and ₱504,710 in 2019 and 2018, respectively.

\*\* Consists of cash and cash equivalents (excluding cash on hand of ₱56,000 in 2019 and 2018)

\*\*\* Consists of investment securities at amortized cost

	Parent Company					
	Receivables*		Cash and Cash Equivalents**		Investments***	
	2019	2018	2019	2018	2019	2018
Financial intermediaries	₱27,398,583	₱23,930,847	₱7,318,404	₱13,462,361	₱-	₱-
Government	-	-	-	-	277,775,189	178,674,512
Personal activities	139,151	436,244	-	-	-	-
Others	72,604,359	72,761,435	-	-	-	-
<b>Total</b>	<b>₱100,142,093</b>	<b>₱97,128,526</b>	<b>₱7,318,404</b>	<b>₱13,462,361</b>	<b>₱277,775,189</b>	<b>₱178,674,512</b>

\* Consists of receivables and security deposit amounting to ₱127,720 and ₱80,600 in 2019 and 2018, respectively which are lodged under 'Other Assets'

\*\* Consists of cash and cash equivalents (excluding cash on hand amounting to ₱20,000 in 2019 and 2018)

\*\*\* Consists of investment securities at amortized cost.

*Credit quality per class of financial assets*

The Group's bases in grading its financial assets are as follows:

*Short-term placements*

Evidence of indebtedness issued by banks are classified as high grade. For corporate debts, classification is based on grading provided by foreign and local (reputable) rating agencies



*Receivables*

High grade - These are receivables which have a high probability of collection (i.e., the counterparty has the evident ability to satisfy its obligation and the security on the receivables are readily enforceable).

Standard - These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a long period of time.

Substandard - These are receivables from counterparties with history of default and partially or unsecured accounts and are not past due as of the reporting date.

As of December 31, 2019 and 2018, the Group's cash and cash equivalents (excluding cash on hand), receivables, security deposits and financial assets at amortized cost are all assessed to be High grade. These financial assets (except for receivables for which the simplified approach is applied) are classified as Stage 1 financial assets as of December 31, 2019 and 2018. These financial assets were determined to have low credit risk and the resulting ECL is not significant due to the following:

Credit risk of cash and cash equivalents and financial assets at amortized cost is assessed to be minimal since these are placed and recoverable from banks with high external credit ratings.

Receivables from customers are assessed to have low credit risk due to underlying collateral securities, with very minimal net exposure (see disclosure on maximum exposure to credit risk).

Investments in government debt securities are classified as High grade. These securities are issued by the Philippine Government and are considered as risk-free debt securities.

Liquidity Risk and Fund Management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's bills purchase lines, strong liquidity management system characterized by such elements as a good management information system, effective analysis of net funding requirements under various scenarios and/or diversification of funding sources in order to make timely payments on any of its financial obligations to clients/creditors.

The tables below summarize the maturity profile of the financial assets and liabilities of the Group and Parent Company based on contractual undiscounted cash flows as of December 31, 2019 and 2018:

	Consolidated						Total
	2019						
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
<b>Financial Assets</b>							
Cash and cash equivalents*	₱35,827,354	₱360,418,857	₱-	₱-	₱-	₱-	₱396,246,211
Receivables – gross							
Accounts receivable	39,655,875	173,832,744	140,896	6,898,201	163,330	-	220,691,046
Loans receivable*	60,000,000	263,410	-	-	-	-	60,263,410
Accrued interest receivable	-	77,167	-	-	-	-	77,167
Receivable from employees	-	833	10,000	37,500	-	-	48,333
Other assets - security deposit	-	-	178,378	-	297,800	128,688	604,866
Financial assets at FVTPL**	-	-	-	-	-	30,514	30,514
Financial assets at FVTOCI	-	-	-	-	-	9,939,280	9,939,280
(Forward)							



	Consolidated						Total
	2019						
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
Investment securities at amortized cost*	–	96,200,000	85,000,000	98,500,000	–	–	279,700,000
<b>Total undiscounted financial assets</b>	<b>₱135,483,229</b>	<b>₱630,793,011</b>	<b>₱85,329,274</b>	<b>₱105,435,701</b>	<b>₱461,130</b>	<b>₱ 10,098,482</b>	<b>₱967,600,827</b>
<b>Financial Liabilities</b>							
Accounts payable and accrued expenses	₱436,961,629	₱72,390,993	₱5,533	₱74,047	₱10,089,845	₱2,359,676	₱521,881,724
Notes payable*	–	–	166,000,000	–	–	–	166,000,000
Lease liability*	–	617,538	1,235,077	1,852,615	3,705,230	23,537,055	30,947,515
<b>Total undiscounted financial liabilities</b>	<b>₱436,961,629</b>	<b>₱73,008,531</b>	<b>₱167,240,610</b>	<b>₱1,926,662</b>	<b>₱13,795,075</b>	<b>₱25,896,731</b>	<b>₱718,829,239</b>

\*Includes future interest

\*\*Consists of delisted and suspended equity securities

	Consolidated						Total
	2018						
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
<b>Financial Assets</b>							
Cash and cash equivalents*	₱37,319,530	₱95,557,490	₱242,360,909	₱–	₱–	₱–	₱375,237,929
Loans and receivables - gross							
Accounts receivable	36,298,289	227,639,331	779,342	5,255,322	47,080	–	270,019,364
Loans receivable*	–	290,581	–	–	60,000,000	–	60,290,581
Accrued interest receivable	–	353,770	–	–	–	–	353,770
Receivable from employees	–	–	27,500	30,833	10,000	–	68,333
Other assets - security deposit	–	–	12,000	–	492,710	–	504,710
Financial assets at FVTPL**	–	–	–	–	–	32,364	32,364
Financial assets at FVTOCI	–	–	–	–	–	9,880,180	9,880,180
Investment securities at amortized cost*	–	45,000,000	80,000,000	54,600,000	–	–	179,600,000
<b>Total undiscounted financial assets</b>	<b>₱73,617,819</b>	<b>₱369,841,172</b>	<b>₱323,179,750</b>	<b>₱59,886,155</b>	<b>₱60,549,790</b>	<b>₱9,912,544</b>	<b>₱895,987,231</b>
<b>Financial Liabilities</b>							
Accounts payable and accrued expenses	₱333,107,061	₱194,133,039	₱508,068	₱217,744	₱1,869,378	₱–	₱529,835,290
<b>Total undiscounted financial liabilities</b>	<b>₱333,769,149</b>	<b>₱194,133,039</b>	<b>₱508,068</b>	<b>₱217,744</b>	<b>₱1,869,378</b>	<b>₱–</b>	<b>₱529,835,290</b>

\*Includes future interest

\*\*Consists of delisted and suspended equity securities

	Parent Company						Total
	2019						
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
<b>Financial Assets</b>							
Cash and cash equivalents	₱7,338,404	₱–	₱–	₱–	₱–	₱–	₱7,338,404
Receivables – gross							
Accounts receivable	39,890,325	–	–	–	–	–	39,890,325
Loans receivable*	60,000,000	263,410	–	–	–	–	60,263,410
Accrued interest receivable	–	77,167	–	–	–	–	77,167
Receivable from employees	–	833	10,000	37,500	–	–	48,333
Receivable from subsidiary	234,460	–	–	–	–	–	234,460
Other assets - security deposit	–	–	–	–	127,720	–	127,720
Investment securities at amortized cost*	–	96,200,000	85,000,000	98,500,000	–	–	279,700,000
<b>Total undiscounted financial assets</b>	<b>₱107,463,189</b>	<b>₱96,541,410</b>	<b>₱85,010,000</b>	<b>₱98,537,500</b>	<b>₱127,720</b>	<b>₱–</b>	<b>₱387,679,819</b>
<b>Financial Liabilities</b>							
Accounts payable and accrued expenses	₱18,125,479	₱8,533	₱5,533	₱ 74,047	₱10,089,845	₱–	₱28,303,438
Notes payable*	–	–	166,000,000	–	–	–	166,000,000
Due to subsidiary	–	–	2,568,016	–	–	–	2,568,016
Lease liability*	–	287,568	575,135	862,703	1,725,406	10,953,045	14,403,857
<b>Total undiscounted financial liabilities</b>	<b>₱18,125,479</b>	<b>₱296,101</b>	<b>₱169,148,684</b>	<b>₱936,750</b>	<b>₱11,815,251</b>	<b>₱10,953,045</b>	<b>₱211,275,311</b>

\*includes future interest



	Parent Company						Total
	2018						
	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	
<b>Financial Assets</b>							
Cash and cash equivalents	₱13,482,361	₱-	₱-	₱-	₱-	₱-	₱13,482,361
<b>Loans and receivables</b>							
Accounts receivable	36,627,275	-	-	-	-	-	36,627,275
Loans receivable*	60,000,000	290,581	-	-	-	-	60,290,581
Accrued interest receivable	-	353,770	-	-	-	-	353,770
Receivable from employees	-	-	27,500	30,833	10,000	-	68,333
Other assets - security deposit	-	-	-	-	80,600	-	80,600
Investment securities at amortized cost*	-	45,000,000	80,000,000	54,600,000	-	-	179,600,000
<b>Total undiscounted financial assets</b>	<b>₱110,109,636</b>	<b>₱45,644,351</b>	<b>₱80,027,500</b>	<b>₱54,630,833</b>	<b>₱90,600</b>	<b>₱-</b>	<b>₱290,502,920</b>
<b>Financial Liabilities</b>							
Accounts payable and accrued expenses	₱27,323,683	₱1,525,293	₱508,068	₱217,744	₱-	₱-	₱29,574,788
<b>Total undiscounted financial liabilities</b>	<b>₱27,323,683</b>	<b>₱1,525,293</b>	<b>₱508,068</b>	<b>₱217,744</b>	<b>₱-</b>	<b>₱-</b>	<b>₱29,574,788</b>

\*includes future interest

Refer to Note 26 for the maturity profile of financial assets and liabilities.

#### Market Risk

Market risk is the risk that the value of an investment will increase or decrease due to movement in market factors such as, but not limited to, stock prices, interest rates and foreign exchange rates. The central focus of risk measurement for this type of risk is the Group's financial assets at FVTPL and financial assets at FVTOCI. The Group has in place a risk measurement/management system that would mitigate the adverse effects in fluctuations of the price or market value of the said financial assets. The Group's current policy on trading in equity securities is generally anchored on the selective purchase of stocks and the establishment of trading and 'stop loss' limits in order to control losses that may be incurred from the Group's stock trading portfolio. Equity securities are regularly marked to market based on the market quotation derived from the PSE and realized or unrealized earnings are included in the Group's earnings report.

On the fixed-income portfolios representing government debt securities, the Group has set exposure and loss limits.

#### *Interest rate risk*

The Group follows a prudent policy on managing its assets and liabilities so as to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. The Group aims to achieve stability and lengthen the term structure of its portfolio while providing adequate liquidity to cover transactional requirements of customers.

Sourcing rates are set by reference to prevailing market rates of Philippine government securities and other money market instruments.

As of December 31, 2019 and 2018, the Group has no significant interest rate risk on its interest-bearing financial assets and liabilities because the Group does not have debt instruments that are carried at fair value or bearing floating interest rate.

#### *Foreign currency risk*

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



Information on the Parent Company's foreign currency-denominated monetary assets as of December 31, 2019 and 2018 and their Philippine Peso equivalents are as follows:

	2019			2018		
	US Dollar	Euro	Total	US Dollar	Euro	Total
Cash and cash equivalents	₱1,659,035	₱32,691	₱1,691,726	₱1,716,580	₱35,104	₱1,751,684

The exchange rates used to convert the Parent Company's foreign currency-denominated monetary assets and liabilities into Philippine peso as of December 31, 2019 and 2018 follow:

	2019	2018
US Dollar to Philippine Peso	₱50.64	₱52.58
Euro to US Dollar	\$1.11	\$1.15

As of December 31, 2019 and 2018, the Group's and the Parent Company's sensitivity to foreign currency risk is not significant.

*Price risk*

The Group's equity price risk emanates primarily from its equity securities in proprietary accounts classified as financial assets at FVTOCI. The Group measures the sensitivity of its investment securities based on the PSE index (PSEi) fluctuations.

The following tables set forth the impact of changes in the PSEi on the Group's 'Net trading gains (losses)' in OCI related to its quoted equity securities as of December 31, 2019 and 2018.

	2019	
<b>Change in PSEi</b>	<b>14.50%</b>	<b>(14.50%)</b>
<b>Change in equity:</b>	<b>₱603,671</b>	<b>(₱603,671)</b>
As a percentage of the Group's Net trading gains (losses)	1,455.12%	(1,455.12%)
	<hr/>	
	2018	
Change in PSEi	17.73%	(17.73%)
Change in equity:	₱255,934	(₱255,934)
As a percentage of the Group's Net trading gains (losses)	491.49%	(491.49%)

The sensitivity is the effect of the assumed changes in PSEi on 'Net trading gains (losses)' for one year, based on the beta of equity securities at the reporting date. The sensitivity of 'Net trading gains (losses)' are calculated by revaluing the securities using the betas at the reporting date and the effects of the assumed changes in PSEi.

The sensitivity of the unrealized gain or loss from the Company's financial assets at FVTPL due to changes in price quotations is not significant.

Offsetting Financial Assets and Financial Liabilities

PFRS 7 requires the Group to disclose information about rights to offset related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting agreements or similar agreements.



The effects of these arrangements at the Group level are disclosed in the succeeding tables:

*Financial Assets*

Financial assets recognized at end of reporting period by type	Gross carrying amount (before offsetting)	Amounts offset in accordance with offsetting criteria	Net amount presented in statement of financial condition	Effects of remaining rights of set-off that do not meet PAS 32 offsetting criteria Financial collateral	Net Exposure
<b>December 31, 2019</b>					
Receivable from:					
Customers	₱87,945,899	₱13,490,555	₱74,455,344	₱74,347,147	₱108,170
<b>December 31, 2018</b>					
Receivable from:					
Customers	₱222,446,029	₱11,621,610	₱210,824,419	₱210,824,321	₱98

*Financial Liabilities*

Financial liabilities recognized at end of reporting period by type	Gross carrying amount (before offsetting)	Amounts offset in accordance with offsetting criteria	Net amount presented in statement of financial condition	Effects of remaining rights of set-off that do not meet PAS 32 offsetting criteria Financial collateral	Net Exposure
<b>December 31, 2019</b>					
Payable to:					
Customers	₱489,318,958	₱13,490,555	₱475,828,403	₱-	₱475,828,403
<b>December 31, 2018</b>					
Payable to:					
Customers	₱484,556,856	₱11,621,610	₱472,935,246	₱-	₱472,935,246

The Parent Company has no financial instruments with offsetting or similar arrangement.

**5. Fair Value of Financial Instruments**

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Financial assets and liabilities at amortized cost (except Investment securities at amortized cost) - Carrying values approximate fair values since these instruments have short-term maturities. These financial instruments are comprised of cash and cash equivalents, receivables, accounts payable and accrued expenses and other liabilities.

Investment securities at amortized cost - Fair values are generally based on quoted market prices.

*Lease liability*

The Company determined the fair values applying the discounted cash flow methodology using credit adjusted interest rates.

Financial assets at FVTOCI and FVTPL - Fair values are generally based on closing prices published in markets for quoted equity securities.



### Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The fair value of the investment in FVTOCI as of December 31, 2019 and 2018 amounting to ₱9.94 million and ₱9.88 million, respectively, are based on published closing price per share and are classified under Level 1 in the fair value hierarchy.

The carrying value of the investment in financial assets at amortized cost as of December 31, 2019 and 2018 amounting to ₱277.78 million and ₱178.67 million, respectively, have fair values amounting to ₱278.62 million and ₱178.02 million, respectively. The fair value of the investment in financial assets at amortized cost are classified under Level 1 in the fair value hierarchy.

As of December 31, 2019, the lease liability for the Group and the Parent Company have carrying amounts of ₱26.45 million and ₱12.31 million, respectively, and fair values of ₱28.48 million and ₱13.29 million, respectively. The fair value of lease liability is classified under Level 3 in the fair value hierarchy.

In 2019 and 2018, there were no transfers were made among the fair value hierarchy levels.

## 6. Cash and Cash Equivalents

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Cash on hand	₱56,000	₱56,000	₱20,000	₱20,000
Deposits in banks	35,771,354	37,263,529	7,318,404	13,462,361
Short-term placements	360,246,545	336,737,373	—	—
	<b>₱396,073,899</b>	<b>₱374,056,902</b>	<b>₱7,338,404</b>	<b>₱13,482,361</b>

In 2019 and 2018, deposits in banks bear annual interest of 0.125% to 0.25% for the Parent Company. On the other hand, short-term placements bear annual interest rates ranging from 0.50% to 3.75% and from 0.50% to 6.75% in 2019 and 2018, respectively.

Interest income from deposits in banks in 2019 and 2018 amounted to ₱0.19 million and ₱0.20 million, respectively, for the Group, and ₱0.02 million and ₱0.03 million, respectively, for the Parent Company (Note 18).

In 2019 and 2018, interest income related to short-term placements amounted to ₱15.38 million and ₱3.02 million, respectively, for the Group, and ₱0.10 million and ₱0.54 million, respectively, for the Parent Company (Note 18).



The Subsidiary maintains a special reserve account under the trust management of the Parent Company with the following conditions:

- (a) the funds are kept separate from other accounts;
- (b) the funds shall not be used as security for a loan to the Subsidiary by the Parent Company and shall be subject to no right, charge, security interest, lien or claim of any kind in favor of the Parent Company or any person claiming through the Parent Company; and
- (c) the Subsidiary waives the confidentiality of, or any other right in relation to the special reserve account in favor of the SEC and/or the PSE for the purpose of allowing the latter to determine from time to time the Subsidiary's compliance with SRC Rule 49.2(4).

The Subsidiary's reserve requirement is determined monthly based on the SEC's prescribed computation. As of December 31, 2019 and 2018, the Subsidiary's reserve accounts are adequate to cover its reserve requirements.

As of December 31, 2019 and 2018, included in cash on hand and deposit in banks are cash collateral and settlement accounts amounting to ₱1.54 million and ₱0.51 million, respectively. The cash collateral account is for the limited use of addressing any market or price risk that the Securities Clearing Corporation of the Philippines (SCCP) may suffer whenever SCCP settles the failed trades of the Subsidiary. The cash settlement account is for the limited use of settling the Subsidiary's securities trade transactions coursed through the facilities of the SCCP. The balance in the cash collateral and settlement accounts shall at all times be free of any liens or encumbrances, other than as may be imposed under court orders or legal processes as may be issued by a court of competent jurisdiction or lawful authority.

In compliance with SRC Rule 49.2, covering customer protection and custody of securities, the Subsidiary maintains a special reserve account, included in short-term placements, for the exclusive benefit of its customers amounting to ₱312.13 million and ₱278.83 million as of December 31, 2019 and 2018, respectively. Included in short-term placements are proceeds from sale of investments of its customers (corresponding liability is presented under 'Accounts payable and accrued expenses' in the statements of financial position). Instead of being settled on their due dates, the customers opted to retain such amounts in the Subsidiary's possession to fund their subsequent trading transactions.

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## 7. Trading and Investment Securities

### Financial Assets at FVTPL

Financial assets at FVTPL consist of investments in quoted equity securities amounting to P0.03 million as of December 31, 2019 and 2018.

In 2019 and 2018, changes in fair value of financial assets at FVTPL recorded as 'Trading and securities gains (losses) - net' in the statement of comprehensive income amounted to (₱1.18 million) and ₱7.12 million, respectively.

### Financial Assets at FVTOCI

As of December 31, 2019 and 2018, equity instruments designated as at FVTOCI include investment in equity shares of listed companies. The Group holds non-controlling interests in these companies. These investments were irrevocably designated as such as the Group considers these investments to be strategic in nature.





As of December 31, 2019 and 2018, the fair value of financial assets at FVTOCI amounted to:

	2019	2018
Investments in equity instruments		
Phoenix Petroleum Philippines Inc.	₱9,939,280	₱9,880,000
Philippine Stock Exchange	—	180
	<b>₱9,939,280</b>	<b>₱9,880,180</b>

As of December 31, 2019, and 2018, the unrealized losses on financial assets at FVTOCI recognized in equity amounted to ₱0.31 million and ₱0.35 million, respectively. Movements in the net unrealized gain (loss) on financial assets at FVTOCI of the Group in 2019 and 2018, respectively, follow:

	2019	2018
Balance at beginning of year	(₱346,879)	(₱90,945)
Net unrealized gains/(losses) taken to other comprehensive income	59,266	(365,620)
Income tax effect (Note 21)	(17,780)	109,686
	<b>41,486</b>	<b>(255,934)</b>
Balance at end of year	<b>(₱305,393)</b>	<b>(₱346,879)</b>

The unrealized gains (losses) taken to other comprehensive income amounted to ₱0.04 million and (₱0.26 million) in 2019 and 2018, respectively.

In 2019 and 2018, the Group recognized dividend income in the amount of ₱0.82 million and ₱0.74 million, respectively, from Phoenix Petroleum Philippines, Inc.

#### Investment securities at amortized cost

This account consists of investments in government securities with aggregate carrying amount of ₱277.78 million and ₱178.67 million as of December 31, 2019 and 2018, respectively. Investment securities at amortized cost bears effective interest rates ranging from 3.56% to 4.82% and 2.14% to 3.47% in 2019 and 2018, respectively.

The Group and Parent Company's net unamortized discount related to investment securities at amortized cost as of December 31, 2019 and 2018 amounted to ₱1.92 million and ₱0.93 million, respectively. The EIR on investment securities at amortized cost of the Group and the Parent Company ranges from 3.56% to 4.82% in 2019 and from 2.14% to 3.47% in 2018.

In 2019 and 2018, interest income on investment securities at amortized cost amounted to ₱11.36 million and ₱4.42 million for the Group and the Parent Company (Note 18).

## 8. Receivables

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Accounts receivable (Note 25)	₱221,112,289	₱270,103,385	₱39,890,325	₱36,627,275
Loan receivable	60,000,000	60,000,000	60,000,000	60,000,000
Accrued interest receivable	77,167	353,770	77,167	353,770
Receivable from employees	48,333	68,333	48,333	68,333



Allowance for credit losses (Note 14)	(1,452)	(1,452)	(1,452)	(1,452)
	<b>₱281,236,337</b>	<b>₱330,524,036</b>	<b>₱100,014,373</b>	<b>₱97,047,926</b>

Accounts receivable includes receivables from customers and receivables from clearing house which are settled on T+3.

There were no movements in allowance for impairment and credit losses in 2019 and 2018.

With the level of allowance for impairment and credit losses, management believes that the Group and the Parent Company have sufficient allowance to absorb any losses that may be incurred from the default of its receivables and other risk assets.

## 9. Investment in a Subsidiary

This account represents the Parent Company's investment in shares of stocks of ABCSI, its wholly owned subsidiary, amounting to ₱106.72 million as of December 31, 2019 and 2018. ABCSI, which is registered as a stockbroker and dealer in securities, deals and trades in equity and debt securities and other financial instruments traded in the PSE.

The following table presents the financial information of the Subsidiary with classified statements of financial position as of and for the years ended December 31, 2019 and 2018:

Year	Statements of Financial Position		Statements of Income
	Total Assets	Total Liabilities	Net Income (Loss)
2019	<b>₱648,240,317</b>	<b>₱524,402,392</b>	<b>(₱3,092,240)</b>
2018	644,487,268	644,487,268	6,374,630

## 10. Property and Equipment

The composition of and movements in property and equipment are as follows:

	Consolidated 2019				Total
	Transportation Equipment	Furniture and Fixtures	Condominium Units	Leasehold Improvements	
<b>Cost</b>					
Balances at beginning of year	<b>₱1,586,159</b>	<b>₱38,243,253</b>	<b>₱14,857,491</b>	<b>₱13,772,045</b>	<b>₱68,458,948</b>
Additions (Note 28)	–	1,368,697	–	888,195	2,256,892
Disposals / Write-off	–	(19,171,968)	–	–	(19,171,968)
Reclassifications	–	–	(14,857,491)	–	(14,857,491)
Balances at end of year	<b>1,586,159</b>	<b>20,439,982</b>	<b>–</b>	<b>14,660,240</b>	<b>36,686,381</b>
<b>Accumulated Depreciation and Amortization</b>					
Balances at beginning of year	<b>1,586,156</b>	<b>30,288,065</b>	<b>8,171,618</b>	<b>3,875,354</b>	<b>43,921,193</b>
Depreciation and amortization	–	2,830,024	185,719	2,359,508	5,375,251
Disposals	–	(19,171,498)	–	–	(19,171,498)
Reclassifications	–	–	(8,357,337)	–	(8,357,337)
Balances at end of year	<b>1,586,156</b>	<b>13,946,591</b>	<b>–</b>	<b>6,234,862</b>	<b>21,767,609</b>
<b>Net book value at end of year</b>	<b>₱3</b>	<b>₱6,493,391</b>	<b>₱–</b>	<b>₱8,425,378</b>	<b>₱14,918,772</b>



Consolidated					
2018					
	Transportation Equipment	Furniture and Fixtures	Building	Leasehold Improvements	Total
<b>Cost</b>					
Balances at beginning of year	₱1,586,159	₱30,717,869	₱14,857,491	₱3,535,525	₱50,697,044
Additions	–	7,909,341	–	10,235,520	18,145,861
Disposals	–	(383,957)	–	–	(383,957)
Balances at end of year	1,586,159	38,243,253	14,857,491	13,772,045	68,458,948
<b>Accumulated Depreciation and Amortization</b>					
Balances at beginning of year	1,586,156	29,275,367	7,800,181	3,460,516	42,122,220
Depreciation and amortization	–	1,300,190	371,437	414,838	2,086,464
Disposals	–	(287,493)	–	–	(287,493)
Balances at end of year	1,586,156	30,288,065	8,171,618	3,875,354	43,921,193
Net book value at end of year	₱3	₱7,955,188	₱6,685,873	₱9,896,691	₱24,537,756

2019				
	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>				
Balances at beginning of year	₱596,159	₱23,295,852	₱5,261,519	₱29,153,529
Additions (Note 28)	–	837,686	635,789	1,473,475
Disposals	–	(19,109,919)	–	(19,109,919)
Balances at end of year	596,159	5,023,619	5,897,308	11,517,086
<b>Accumulated Depreciation and Amortization</b>				
Balances at beginning of year	596,158	20,352,136	1,145,385	22,093,679
Depreciation and amortization	–	1,275,472	978,040	2,253,512
Disposals	–	(19,109,456)	–	(19,109,456)
Balances at end of year	596,158	2,518,152	2,123,425	5,237,735
Net book value at end of year	₱1	₱2,505,467	₱3,773,883	₱6,279,351

Parent Company				
2018				
	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Total
<b>Cost</b>				
Balances at beginning of year	₱596,159	₱20,500,518	₱1,075,629	₱22,172,306
Additions	–	2,795,334	4,185,890	6,981,224
Disposals	–	–	–	–
Balances at end of year	596,159	23,295,852	5,261,519	29,153,530
<b>Accumulated Depreciation and Amortization</b>				
Balances at beginning of year	596,158	19,915,655	1,075,620	21,587,433
Depreciation and amortization	–	436,481	69,765	506,246
Disposals	–	–	–	–
Balances at end of year	596,158	20,352,136	1,145,385	22,093,679
Net book value at end of year	₱1	₱2,943,716	₱4,116,134	₱7,059,851

The original cost of fully depreciated property and equipment still in use amounted to ₱35.48 million for the Group and ₱19.88 million for the Parent Company, both as of December 31, 2019 and 2018.

Breakdown of the depreciation and amortization expense pertaining to the Group and Parent Company's property and equipment, investment property, software costs and right-of-use assets is shown below:



	Consolidated		Parent Company	
	2019	2018	2019	2018
Right-of-use asset (Note 19)	<b>₱6,316,524</b>	₱-	<b>₱2,941,443</b>	₱-
Property and equipment	<b>3,015,473</b>	1,671,627	<b>1,275,472</b>	436,481
Leasehold improvement	<b>2,359,508</b>	414,838	<b>978,040</b>	69,765
Software costs (Note 13)	<b>250,435</b>	98,150	<b>141,006</b>	98,150
Investment property (Note 11)	<b>185,992</b>	-	-	-
	<b>₱12,127,932</b>	₱2,184,615	<b>₱5,335,961</b>	₱604,396

## 11. Investment Property

In July 2019, the Group started leasing out its condominium units previously used as its office units and its related parking space. Accordingly, the Group reclassified these condominium units with cost and accumulated depreciation of ₱14.85 million and ₱8.54 million, respectively, as of reclassification date from 'Property and Equipment' to 'Investment Property'.

In 2019, depreciation expense recognized by the Group amounted to ₱0.19 million. Rental income earned from investment properties amounted to ₱1.94 million and is presented as 'Rental Income' in the statement of comprehensive income.

## 12. Goodwill

The Group's goodwill in the consolidated financial statements amounting to ₱8.88 million as of December 31, 2019 and 2018, is related to the acquisition by the Parent Company of 100.00% of shares of stock of the Subsidiary, which is considered as the cash generating unit (CGU). There were no impairment losses recognized for the goodwill in 2019 and 2018.

The Group performed impairment assessment for its goodwill by computing for the recoverable amount of the CGU and comparing it to the carrying value of the CGU. The recoverable amount was based on value-in-use calculations using cash flow projections from financial budgets covering five years. Future cash flows and growth rates were determined based on past experience and strategies developed.

The discount rates used for the computation of the net present value is the weighted average cost of capital for the Subsidiary. In 2019 and 2018, the discount rates applied to the cash flow projections are 8.59% and 8.90%, respectively.

In 2019 and 2018, long-term growth rates are 3.06% and 3.00%, respectively, which have been determined based on average growth rates and market outlook for the services, industry and country in which the CGU is operating.



### 13. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Creditable withholding taxes	₱23,492,437	₱22,427,255	₱11,627,846	₱12,013,380
CTGF refundable deposit	4,439,654	4,161,267	–	–
Exchange trading right	4,000,000	4,000,000	–	–
Prepaid expenses	1,868,049	1,665,925	630,534	608,385
Software costs	1,685,120	187,613	153,108	187,613
Advances to software developer	–	1,285,714	–	–
Others	1,821,468	1,609,294	531,880	372,742
	<b>37,306,728</b>	<b>35,337,068</b>	<b>12,943,368</b>	<b>13,182,120</b>
Less allowance for impairment losses (Note 14)	(1,323,214)	(1,323,214)	(1,323,214)	(1,323,214)
	<b>₱35,983,514</b>	<b>₱34,013,854</b>	<b>₱11,620,154</b>	<b>₱11,858,906</b>

Movements in software costs are as follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
<b>Cost</b>				
Balance at beginning of year	₱8,414,617	₱8,308,630	₱2,383,592	₱2,277,605
Additions	1,747,929	105,987	106,500	105,987
Balance at end of year	<b>10,162,546</b>	<b>8,414,617</b>	<b>2,490,092</b>	<b>2,383,592</b>
<b>Accumulated amortization</b>				
Balance at beginning of year	8,226,992	8,128,842	2,195,978	2,097,829
Amortization	250,434	98,150	141,006	98,150
Balance at end of year	<b>8,477,426</b>	<b>8,226,992</b>	<b>2,336,984</b>	<b>2,195,979</b>
<b>Net book value at end of year</b>	<b>₱1,685,120</b>	<b>₱187,625</b>	<b>₱153,108</b>	<b>₱187,613</b>

Others primarily consist of stationery and supplies, and security deposit for Parent Company and and security deposit for the Subsidiary.

### 14. Accounts Payable and Accrued Expenses

The composition of this account follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Accounts payable	₱501,097,304	₱512,759,077	₱12,975,526	₱16,901,767
Accrued other expenses payable:				
Accrued professional fee	1,904,919	2,170,427	1,186,117	1,451,625
Others	19,354,723	14,905,786	17,185,033	11,221,396
	<b>₱522,356,946</b>	<b>₱529,835,290</b>	<b>₱31,346,676</b>	<b>₱29,574,788</b>

Accounts payable consists of amounts due to customers related to proceeds from the maturity or sale of and return on their investments. Instead of being settled on their due dates, the customers opted to retain such amounts in the Group and the Parent Company's possession. This account also includes ABCSI's payable to clearing house which are settled at T+3 and payable to customers.

Others consist mainly of BSP supervision fee for the Parent Company, while that of the Subsidiary is composed of payable to PDTC fees, PSE fees, SCCP fees and, commission rebates to agents.



## 15. Notes Payable

As of December 31, 2019, the Group and Parent Company's notes payable amounting to ₱165.93 million represent unsecured loans with maturities ranging from 21 to 60 days and interest rate from 5.75% to 6.00%.

As of December 31, 2018, the Group and Parent Company's notes payable amounting to ₱70.00 million represent unsecured loans with maturities ranging from 22 to 30 days and interest rate ranging from 3.25% to 5.75%.

## 16. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Withholding tax payable	₱1,185,920	₱1,357,478	₱692,125	₱742,493
Output VAT payable	511,080	702,550	—	—
SSS, Pag-ibig and Philhealth payables	275,567	239,167	155,047	138,491
Miscellaneous and other deferred liabilities	1,066,373	1,221,971	201,460	121,798
	<b>₱3,038,940</b>	<b>₱3,521,166</b>	<b>₱1,048,632</b>	<b>₱1,002,782</b>

## 17. Equity

As of December 31, 2019 and 2018, capital stock consists of:

	Shares	Amount
Common shares – ₱100 par value		
Authorized	4,000,000	
Issued and outstanding	2,032,581	₱203,258,100

As of December 31, 2019 and 2018, capital paid in excess of par value of common shares amounted to ₱131.39 million.

### Capital Management

The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The Group considers its equity as its capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.



### Dividends

In 2019 and 2018, the Parent Company did not declare dividends. Dividends payable as of December 31, 2019 and 2018 amounted to ₱0.66 million.

On March 14, 2019, the Subsidiary's BOD declared cash dividends in the aggregate amount of ₱14,000,000 (₱29.17 per share) out of its unrestricted retained earnings, payable to stockholders of record as of the same date.

### Retained Earnings

The Parent Company's BOD and stockholders have the discretion in the declaration of dividends. Under existing BSP regulations, the Parent Company should set up a reserve for trust business equivalent to 10.0% of the net profit from its trust business. This annual appropriation is required until the appropriated retained earnings for trust operations amounted to 20.0% of the Parent Company's regulatory capital and no part of such retained earnings shall anytime be paid out of dividends but losses accruing in the course of its business may be charged against the surplus reserve.

The appropriated retained earnings of the Parent Company as of December 31, 2019 and 2018 amounted to ₱7.63 million. The Parent Company incurred net loss in 2019. Thus, no appropriation of retained earnings was made in 2019.

In 2018, the Subsidiary's BOD approved the appropriation of retained earnings for ABCSI amounting to ₱0.64 million in compliance with SRC Rule 49.1 (B), *Reserve Fund*, which requires that every broker dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to Appropriated Retained Earnings. In 2019, the Subsidiary reported net loss of ₱3.09 million, resulting in nil appropriation.

In addition, a portion of the Group's retained earnings corresponding to the accumulated net earnings of the Subsidiary is not available for dividend declaration amounting to ₱19.35 million as of December 31, 2019 and 2018. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investee.

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## 18. Interest and Finance Income

This account consists of interest and finance income on:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Investment securities at amortized cost (Note 7)	<b>₱11,357,679</b>	₱4,419,747	<b>₱11,357,679</b>	₱4,419,747
Short-term placements (Note 6)	<b>15,375,425</b>	3,023,616	<b>100,713</b>	536,747
Receivables	<b>8,839,519</b>	2,153,595	<b>4,258,333</b>	359,657
Deposits in banks (Note 6)	<b>189,475</b>	195,365	<b>22,991</b>	26,303
	<b>₱35,762,098</b>	₱9,792,232	<b>₱15,739,716</b>	₱5,342,454

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## 19. Leases

### *Group and Parent Company as a lessee*

ABCSI has entered into a lease agreement with Vicsal Development Corporation (VDC) for the lease of its head office space for a period of five years with escalation subject to renewal at the option of the Company. Subsequently, the Parent Company sublease a portion of the head office space from



ABCSI. The non-cancellable sublease agreement is for a period of five years with an annual escalation.

*Applicable beginning January 1, 2019*

The rollforward analysis of right-of-use asset on the abovementioned lease contracts are as follows:

	Consolidated	Parent Company
<b>Cost</b>		
Effect of adoption as at January 1, 2019 / Balance at end of year	₱31,592,471	₱14,707,213
Accumulated depreciation, representing depreciation expense in 2019	6,316,524	2,941,443
<b>Net Book Value</b>	<b>₱25,275,947</b>	<b>₱11,765,770</b>

In 2019, the following are the amounts recognized by the Group in the statement of income related to the lease:

	Consolidated	Parent Company
Depreciation expense of right-of-use assets	₱6,316,524	₱2,941,443
Interest expense on lease liability	2,063,249	960,418
Rent expenses relating to short-term leases (included under Occupancy and equipment-related costs)	1,684,697	274,618
<b>Total amount recognized in statement of income</b>	<b>₱10,064,475</b>	<b>₱4,176,479</b>

The rollforward analysis of the lease liability follows:

	Consolidated	Parent Company
At January 1, upon adoption of PFRS 16	₱31,592,471	₱14,707,213
Additions	-	-
Interest expense	2,063,249	960,418
Lease payments	(7,203,355)	(3,355,546)
<b>As at December 31, 2019</b>	<b>₱26,452,365</b>	<b>₱12,312,085</b>

Shown below is the maturity analysis of the undiscounted lease payments related to the lease as of December 31, 2019:

	Consolidated	Parent Company
Within one year	₱7,410,461	₱3,450,812
More than one year but less than two years	7,623,775	3,548,940
More than two year but less than three years	7,843,488	3,650,008
More than three year but less than four years	8,069,792	3,754,104
	<b>₱30,947,516</b>	<b>₱14,403,865</b>





*Operating Lease – Group as Lessee*

In 2019, the Company is a lessee under a non-cancellable lease agreement covering the office space of its branches classified as short-term leases with lease term less than one year from commencement date.

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2019:

	<b>Consolidated</b>	<b>Parent Company</b>
Within one year	<b>₱890,561</b>	<b>₱170,556</b>
More than one year but less than two years	<b>165,149</b>	<b>–</b>
	<b>₱1,055,710</b>	<b>₱170,556</b>

*Operating Lease – Group as Lessor*

In 2019, the Group entered into a non-cancellable lease for its investment property (Note 11) previously used as its office units and parking space with a lease term of three years renewable at the lessee's sole option for an additional period of one year. The Group assessed and accounted for the lease as an operating lease.

As of December 31, 2019, the total future minimum lease payments based on the lease agreement follow:

	<b>2019</b>
Within one year	<b>₱4,658,788</b>
After one year but less than three years	<b>7,376,414</b>
	<b>₱12,035,202</b>

*Applicable before January 1, 2019*

As of December 31, 2018, the total future minimum lease payments based on the Group's outstanding lease agreements follow:

	<b>Consolidated</b>	<b>Parent Company</b>
Within one year	<b>₱8,765,673</b>	<b>₱3,912,695</b>
After one year but not more than five years	<b>6,827,552</b>	<b>3,307,095</b>
	<b>₱15,593,225</b>	<b>₱7,219,790</b>

In 2018, rent expense on the abovementioned contracts, included under 'Occupancy and equipment-related costs' in the profit or loss, amounted to ₱2.85 million and ₱1.16 million for the Group and Parent Company, respectively.



## 20. Miscellaneous Expense

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Other personnel related costs	<b>₱2,374,199</b>	₱1,920,836	<b>₱851,762</b>	₱663,821
Stationery and supplies	<b>2,210,606</b>	1,870,580	<b>1,024,513</b>	823,623
Building expenses	<b>1,857,852</b>	883,465	<b>35,960</b>	22,858
Membership fees and dues	<b>1,203,618</b>	623,597	<b>1,163,618</b>	583,597
Travelling expenses	<b>1,607,193</b>	1,832,027	<b>799,182</b>	1,070,620
Sponsorships and company events	<b>431,618</b>	268,977	<b>347,577</b>	94,161
Insurance expense	<b>236,140</b>	229,339	<b>103,982</b>	96,970
Advertising and publicity	<b>165,766</b>	1,120,836	<b>112,068</b>	1,067,174
Meetings and conferences	<b>153,148</b>	141,815	<b>106,460</b>	107,844
Others	<b>2,338,910</b>	2,827,047	<b>942,851</b>	608,653
	<b>₱12,579,050</b>	₱11,718,519	<b>₱5,487,973</b>	₱5,139,321

Others include parking fees and dues, penalties paid, petty cash reimbursements and other administrative expenses.

## 21. Income and Other Taxes

Under Philippine tax laws, the Group is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax.

Income taxes include corporate income tax, as discussed below, as well as final withholding taxes paid at the rates of 20.00% of gross interest income from peso-denominated debt instruments and other deposit substitutes, and 15.00% of gross interest income from foreign currency deposits in a depository bank under the expanded foreign currency deposit system.

Current tax regulations provide that starting January 1, 2009, the RCIT rate shall be 30.00%. In addition, the allowable interest expense shall be reduced by an amount equivalent to 33.00% of interest income subject to final tax starting January 1, 2009.

The provision for income tax consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Current:				
MCIT	<b>₱1,246,680</b>	₱1,001,772	<b>₱773,302</b>	₱318,228
Final	<b>3,127,199</b>	2,814,850	<b>24,662</b>	112,505
	<b>4,373,879</b>	3,816,622	<b>797,964</b>	430,733
Deferred	<b>374,700</b>	(2,075,870)	<b>316,502</b>	(2,296,630)
	<b>₱4,748,579</b>	₱1,740,752	<b>₱1,114,466</b>	(₱1,865,897)



Provision (benefit) for deferred income tax charged directly to OCI during the year for the year follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Remeasurements on retirement plan	<b>(P622,118)</b>	₱190,546	<b>(P413,282)</b>	₱128,420
Net unrealized gain (loss) in 2019	<b>17,780</b>	(109,686)	-	-
	<b>(P604,338)</b>	₱80,860	<b>(P413,282)</b>	₱128,420

The components of the net deferred tax asset follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Deferred tax assets on:				
Unrealized loss on financial assets at FVTOCI	<b>₱130,883</b>	₱148,667	<b>₱-</b>	<b>₱-</b>
Allowance for impairment and credit losses	<b>547,190</b>	523,484	<b>397,400</b>	397,400
Unamortized past service cost	<b>724</b>	53,349	-	-
Unrealized loss on financial assets at FVTPL	<b>13,932</b>	14,232	-	-
Retirement liability	<b>556,993</b>	414,935	<b>473,708</b>	414,935
	<b>1,249,722</b>	1,154,667	<b>871,108</b>	812,335
Deferred tax liabilities on:				
Unrealized foreign exchange gain	<b>₱8,673</b>	₱47,099	<b>₱1,180</b>	₱39,188
Unrealized gain on financial assets at FVTOCI	<b>6</b>	4	-	-
Retirement asset	-	96,159	-	-
	<b>8,679</b>	143,262	<b>1,180</b>	39,188
Net deferred tax asset	<b>₱1,241,043</b>	₱1,011,405	<b>₱869,928</b>	₱773,147

The Group did not set up deferred tax assets on the following:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Temporary differences on:				
NOLCO	<b>₱43,988,572</b>	₱27,219,624	<b>₱25,477,184</b>	₱24,299,718
Carryforward benefits of MCIT	<b>3,232,625</b>	2,465,342	<b>1,549,364</b>	776,062
Unamortized past service cost	<b>1,435,727</b>	294,567	<b>1,162,876</b>	-
	<b>₱48,656,924</b>	₱29,979,533	<b>₱28,189,424</b>	₱25,075,780

The Group believes that it is not probable that these temporary differences will be realized.

Details of NOLCO for the Group as of December 31, 2019 are as follows:

Inception Year	Consolidated			
	Amount	Applied	Balance	Expiry Year
<b>2019</b>	<b>₱16,768,948</b>	<b>₱-</b>	<b>₱16,768,948</b>	<b>2022</b>
2018	17,823,497	-	17,823,497	2021
2017	9,929,677	533,550	9,396,127	2020
	<b>₱44,522,122</b>	<b>₱533,550</b>	<b>₱43,988,572</b>	



Parent Company				
Inception Year	Amount	Applied	Balance	Expiry Year
2019	₱1,177,464	₱-	₱1,177,464	2022
2018	17,823,497	-	17,823,497	2021
2017	6,476,221	-	6,476,221	2020
	₱25,477,182	₱-	₱25,477,182	

Details of MCIT benefit for the Group as of December 31, 2019 are as follows:

Consolidated				
Inception Year	Amount	Expired	Balance	Expiry Year
2019	₱1,246,680	₱-	₱1,246,680	2022
2018	1,001,772	-	1,001,772	2021
2017	984,173	-	984,173	2020
2016	479,337	479,337	-	2019
	₱3,711,962	₱479,337	₱3,232,625	

Parent Company				
Inception Year	Amount	Expired	Balance	Expiry Year
2019	₱773,302	₱-	₱773,302	2022
2018	318,228	-	318,228	2021
2017	457,834	-	457,834	2020
	₱1,549,364	₱-	₱1,549,364	

A reconciliation of the statutory income tax rate to the effective income tax rate follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Statutory income tax rate	30.00%	30.00%	30.00%	30.00%
Tax effect of:				
Non-deductible expenses	(51.63%)	(19.70%)	(545.46%)	(11.11%)
Tax-paid and tax-exempt income	39.37%	(2.38%)	516.32%	6.10%
Change in unrecognized deferred tax assets	(49.68%)	(21.66%)	(80.06%)	16.75%
Effective income tax rate	(31.94%)	(13.74%)	(79.20%)	(24.99%)

## 22. Retirement Plan

The Group has a noncontributory and funded retirement plan covering all its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The retirement fund is administered by the Parent Company's Trust and Investment Division (TID) which acts as a trustee under the plan.

Under the existing regulatory framework, Republic Act 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.



The following tables show the amounts recognized based on the actuarial valuation as of December 31, 2019 and 2018:

Changes in net retirement liability (asset) in 2019 are as follows:

	Consolidated											
	Net benefit cost in profit or loss					Remeasurements in other comprehensive income						
	January 1, 2019	Current service cost	Interest on the effect of the asset ceiling	Net interest	Subtotal	Return on plan assets (excluding amount included in net interest)	Changes in effect of asset ceiling	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	December 31, 2019	
Present value of defined benefit obligation	₱8,267,680	₱2,791,702	₱--	₱636,611	₱3,428,313	₱--	₱--	₱1,887,441	₱120,764	₱2,008,205	₱--	₱10,445,407
Fair value of plan assets	(7,205,092)	--	1,900	(520,548)	(518,648)	92,099	(26,581)	--	--	65,518	(4,189,357)	(6,719,410)
Net retirement liability (asset)	₱1,062,588	₱2,791,702	₱1,900	₱116,063	₱2,909,665	₱92,099	₱(26,581)	₱1,887,441	₱120,764	₱2,073,723	₱1,869,378	₱3,725,997
<i>*The Subsidiary is in a net pension liability position amounting to ₱2.15 million. The Parent Company is in a net liability position amounting to ₱1.58 million.</i>												
	Parent Company											
	Net benefit cost in profit or loss					Remeasurements in other comprehensive income						
	January 1, 2019	Current service cost	Net interest	Subtotal	Return on plan assets (excluding amount included in net interest)	Changes in effect of asset ceiling	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Subtotal	December 31, 2019		
Present value of defined benefit obligation	₱4,722,805	₱1,841,033	₱363,656	₱2,204,689	₱--	₱944,112	₱381,328	₱1,325,440	₱1,325,440	₱(3,233,914)	₱--	₱5,019,020
Fair value of plan assets	(3,339,689)	--	(253,275)	(253,275)	52,167	--	--	--	52,167	3,233,914	(3,133,117)	(3,440,000)
Net retirement liability (asset)	₱1,383,116	₱1,841,033	₱110,381	₱1,951,414	₱52,167	₱944,114	₱381,328	₱1,377,607	₱1,377,607	₱--	₱(3,133,117)	₱1,579,020





The principal actuarial assumptions used in determining the retirement benefit cost are shown below:

	Parent Company		ABCSI	
	2019	2018	2019	2018
Discount rate	5.54%	7.70%	5.54%	7.70%
Future salary increases	4.00%	4.00%	4.00%	4.00%
Mortality rate	2001 CSO	2001 CSO	2001 CSO	2001 CSO

The movements in 'Remeasurement loss on retirement liability' in OCI follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Balance at beginning of year	₱198,509	(₱246,098)	(₱25,433)	(₱325,078)
Remeasurement gain (loss) during the year:				
Present value of defined benefit obligation	(2,008,205)	1,044,471	(1,325,440)	621,441
Fair value of plan assets	(92,099)	(384,637)	(52,167)	(193,376)
Effect of asset ceiling	26,581	(24,681)	-	-
	(2,073,723)	635,153	(1,377,607)	428,065
Income tax effect	(622,118)	(190,546)	(413,282)	(128,420)
Balance at end of year	(₱1,253,096)	₱198,509	(₱989,758)	(₱25,433)

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, 2019 and 2018, assuming if all other assumptions were held constant:

	Increase/ (Decrease)	Consolidated			
		2019		2018	
		Amount	%	Amount	%
Discount rate	+1.00%	(₱961,889)	(18.4)	(₱523,292)	(13.0)
	-1.00%	1,155,936	22.1	617,622	15.3
Salary increase rate	+1.00%	1,162,467	22.3	634,947	15.8
	-1.00%	(983,533)	(18.9)	(545,232)	(13.5)

	Increase/ (Decrease)	Parent Company			
		2019		2018	
		Amount	%	Amount	%
Discount rate	+1.00%	(₱478,782)	(9.5)	(₱251,342)	(5.3)
	-1.00%	569,427	11.3	294,483	6.2
Salary increase rate	+1.00%	572,628	11.4	302,713	6.4
	-1.00%	(489,609)	(9.8)	(261,916)	(5.5)

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

	Consolidated		Parent Company	
	2019	2018	2019	2018
Less than one year	₱989,646	₱2,613,106	₱989,646	₱2,613,106
More than 1 year to 4 years	4,015,297	4,237,649	735,009	1,118,755
More than 4 years to 10 years	11,389,130	8,954,257	7,547,395	6,173,370

The weighted average duration of the defined benefit obligation at the end of the reporting period ranges from 9.9 years to 10.4 years for the Group and 10.4 years for the Parent Company.

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.



The fair values of plan assets by each class as at the end of the reporting periods are as follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
<b>Fund Assets:</b>				
Cash and cash equivalents	₱11,854	₱7,752	₱6,069	₱3,581
Debt instruments				
Time deposits	3,364,948	4,108,000	1,722,685	1,897,631
Government securities	3,325,972	3,133,353	1,702,730	1,447,407
	6,702,774	7,241,353	3,431,484	3,345,038
Loans and receivables				
Interest receivable	23,657	36,388	12,111	16,809
	6,726,431	7,285,493	3,443,595	3,365,428
<b>Fund Liabilities:</b>				
Accounts payable	3,243	51,700	1,660	23,882
Portfolio fees	3,779	4,020	1,935	1,858
	7,022	55,720	3,595	25,739
<b>Net Fund Assets</b>	<b>₱6,719,409</b>	<b>₱7,229,773</b>	<b>₱3,440,000</b>	<b>₱3,339,689</b>

Government and private debt securities held have quoted prices in active markets. The remaining plan assets do not have quoted market prices in active market. However, their carrying values approximate fair values since these have short-term maturities.

## 23. Trust Operations

Properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying financial statements since these are not assets of the Parent Company. Total assets held by the Parent Company's TID amounted to ₱24.51 billion and ₱22.15 billion as of December 31, 2019 and 2018, respectively.

In compliance with banking regulations, relative to the Parent Company's trust functions, government securities (included under 'Investment securities at amortized cost' as of December 31, 2019 and December 31, 2018, respectively) owned by the Parent Company with face value amounting to ₱279.70 million and ₱179.60 million as of December 31, 2019 and 2018, respectively, are deposited with the BSP.

Trust fees are accrued as incurred and are generally charged at a flat rate or a percentage of investments ranging from 0.10% to 1.50% on trust assets managed. Trust fee income amounted to ₱44.28 million and ₱34.54 million in 2019 and 2018, respectively for the Group, and ₱45.13 million and ₱35.06 million in 2019 and 2018, respectively, for the Parent Company.

## 24. 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 or other related parties. Related parties may be individuals or corporate entities.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These





transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Related party transactions will be settled in cash. Details on related party transactions follow:

Category	Consolidated				Nature/Terms and Condition
	2019		2018		
	Amounts/ Volume	Outstanding Balances	Amounts/ Volume	Outstanding Balances	
<b>VDC (Ultimate Parent Company)</b>					
Lease arrangement					
Right of use asset	₱-	₱25,275,947	₱-	₱-	Lease agreement for the lease of its head office space for a period of five years subject to annual escalation.
Lease liability	-	26,452,367	-	-	
<b>Trust and Investments Division:</b>					
Receivables	-	11,904,984	-	7,950,882	Non-interest bearing, receivable arising from trust fee income recognized
Trust fee income	45,131,329	-	35,059,761	-	Fees on trust management
Special deposit accounts		360,246,545		336,737,373	30 days, unsecured 0.50% to 6.90%, per annum, unimpaired, placed with the TID of the Parent Company
Placements	1,087,936,836	-	824,499,174	-	
Withdrawals	1,064,427,664	-	668,210,000	-	
Placement fees	852,104	62,147	519,853	58,111	Payable in cash, due within 1 month
<b>Entities under common control:</b>					
Loans and receivables	-	27,327,330	-	27,327,330	Non-interest bearing, unsecured loans, due and demandable
Commission income	433,270	-	88,499	-	Commission income on purchase and sale of government securities
Trade transactions	174,848,535	-	35,299,270	-	Paid in cash on settlement date (Trade date + 3)
Non-trade payable	-	68,247	-	68,247	Non-interest bearing, share in various expenses
<b>Parent Company</b>					
Category	2019		2018		Nature/Terms and Condition
	Amounts/ Volume	Outstanding Balances	Amounts/ Volume	Outstanding Balances	
	Amounts/ Volume	Outstanding Balances	Amounts/ Volume	Outstanding Balances	
<b>Trust and Investments Division:</b>					
Receivables	₱-	₱11,904,984	₱-	₱7,950,882	Non-interest bearing, receivable arising from trust fee income recognized
Trust fee income	45,131,329	-	35,059,761	-	Fees on trust management
<b>Subsidiary:</b>					
Loans and receivables	-	234,460	-	332,422	Non-interest bearing; reimbursement on share in various expenses
Non-trade payable	2,568,016	2,568,016	-	-	Memorandum of agreement on IT services and related activities; due yearly



Category	Parent Company				Nature/Terms and Condition
	2019		2018		
	Amounts/ Volume	Outstanding Balances	Amounts/ Volume	Outstanding Balances	
Sub-lease arrangement					
Right-of-use asset	₱-	₱11,765,770	₱-	₱-	Sublease agreement to lease out a portion of leased building space for a period of five years.
Lease liability	-	12,312,085	-	-	
<b>Entities under common control:</b>					
Loans and receivables	-	27,327,330	-	27,327,330	Non-interest bearing, unsecured loans and due and demandable
Management and administration fees	1,686,814	228,334	2,010,300	643,171	Management fees received from Filipino Fund, Inc. (the Fund) computed based on 0.5% of its net asset value (NAV) for 2019 and 2018. ₱50,000 admin fee per month from the Fund
Non-trade payable	-	68,247	-	68,247	Non-interest bearing, share in various expenses

#### Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Parent Company, directly or indirectly.

The compensation of key management personnel by benefit type of the Parent Company are as follows:

	2019	2018
Salaries and other short-term benefits	₱15,711,243	₱18,772,134
Post-employment benefits	1,088,963	962,265
	<b>₱16,800,206</b>	<b>₱19,734,399</b>

#### Transactions with Retirement Plan

The retirement fund of the Group's and the Parent Company's employees is being managed by the Parent Company's TID.

Relevant information on carrying values of the Group's and the Parent Company's retirement funds in the statements of financial position as of December 31, 2019 and 2018 follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
<b>Fund Assets:</b>				
Deposits in banks	₱3,376,802	₱4,115,752	₱1,728,754	₱1,901,212
Government securities	3,325,972	3,133,354	1,702,730	1,447,407
	<b>6,702,774</b>	<b>7,249,106</b>	<b>3,431,484</b>	<b>3,348,618</b>
Loans and receivables				
Interest receivable	23,657	36,387	12,111	16,809
	<b>6,726,431</b>	<b>7,285,493</b>	<b>3,443,595</b>	<b>3,365,428</b>
<b>Fund Liabilities:</b>				
Accounts payable	3,243	51,700	1,660	23,882
Portfolio fees	3,779	4,019	1,935	1,857
	<b>7,022</b>	<b>55,719</b>	<b>3,595</b>	<b>25,739</b>
<b>Net Fund Assets</b>	<b>₱6,719,409</b>	<b>₱7,229,774</b>	<b>₱3,440,000</b>	<b>₱3,339,689</b>



## 25. Financial Performance

The following basic ratios measure the financial performance of the Group and Parent Company:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Return on average equity	(5.67%)	(3.96%)	(0.81%)	(6.43%)
Return on average assets	(1.94%)	(1.74%)	(0.54%)	(5.35%)
Net interest margin on average earning assets	3.12%	1.77%	5.27%	2.21%

## 26. Maturity Profile of Assets and Liabilities

The following tables show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	December 31, 2019			December 31, 2018		
	Less than One Year	Over One Year	Total	Less than One Year	Over One Year	Total
<b>Financial Assets</b>						
Cash and cash equivalents	₱396,073,899	₱-	₱396,073,899	₱374,056,902	₱-	₱374,056,902
Financial assets at FVTPL	-	30,514	30,514	-	32,364	32,364
Financial assets at FVTOCI	-	9,939,280	9,939,189	-	9,880,180	9,880,180
Investment securities at amortized cost	277,775,189	-	277,775,189	178,674,512	-	178,674,512
Loans and receivables - gross	281,237,789	-	281,237,789	330,525,488	-	330,525,488
Other assets - gross	604,866	-	604,866	342,548	162,162	504,710
	<b>955,691,743</b>	<b>9,969,794</b>	<b>965,661,537</b>	<b>883,599,450</b>	<b>10,074,706</b>	<b>893,674,156</b>
<b>Nonfinancial Assets</b>						
Property and equipment - net	-	16,450,784	16,450,784	-	24,537,768	24,537,768
Investment property	-	6,314,435	6,314,435	-	-	-
Retirement asset	-	-	-	-	320,528	320,528
Deferred tax asset	-	1,241,043	1,241,043	-	1,011,405	1,011,405
Goodwill	-	8,877,294	8,877,294	-	8,877,294	8,877,294
Right-of-use asset	-	25,275,947	25,275,947	-	-	-
Other assets - gross	14,077,340	21,095,122	35,169,850	17,759,463	17,072,895	34,832,358
	<b>14,077,340</b>	<b>79,252,013</b>	<b>93,329,353</b>	<b>17,759,463</b>	<b>51,819,890</b>	<b>69,579,353</b>
Allowance for impairment and credit losses	-	-	(1,324,666)	-	-	(1,324,666)
	<b>₱969,769,083</b>	<b>₱89,221,807</b>	<b>₱1,057,666,224</b>	<b>₱901,358,913</b>	<b>₱61,894,596</b>	<b>₱961,928,843</b>
<b>Financial Liabilities</b>						
Accounts payable and accrued expenses	₱522,356,946	₱-	₱522,356,946	₱528,452,933	₱1,382,357	₱529,835,290
Notes payable	165,926,645	-	165,926,645	70,000,000	-	70,000,000
Lease liability	8,133,682	18,318,683	26,452,365	-	-	-
Dividends payable	662,088	-	662,088	662,088	-	662,088
	<b>697,079,361</b>	<b>18,318,683</b>	<b>715,398,044</b>	<b>599,115,021</b>	<b>1,382,357</b>	<b>600,497,378</b>
<b>Nonfinancial Liabilities</b>						
Retirement liability	-	3,725,997	3,725,997	-	1,383,116	1,383,116
Other liabilities	3,038,940	-	3,038,940	3,521,166	-	3,521,166
	<b>3,038,940</b>	<b>3,725,997</b>	<b>6,764,937</b>	<b>3,521,166</b>	<b>1,383,116</b>	<b>4,904,282</b>
	<b>₱700,118,301</b>	<b>₱22,044,680</b>	<b>₱722,162,981</b>	<b>₱602,636,187</b>	<b>₱2,765,473</b>	<b>₱605,401,660</b>



	Parent Company					
	December 31, 2019			December 31, 2018		
	Less than One Year	Over One Year	Total	Less than One Year	Over One Year	Total
<b>Financial Assets</b>						
Cash and cash equivalents	₱7,338,404	₱-	₱7,338,404	₱13,482,361	₱-	₱13,482,361
Financial assets at amortized cost	277,775,189	-	277,775,189	178,674,512	-	178,674,512
Loans and receivables - gross	100,015,825	-	100,015,825	97,049,378	-	97,049,378
Other assets - gross	127,720	-	127,720	80,600	-	80,600
	<b>385,257,138</b>	<b>-</b>	<b>385,257,138</b>	<b>289,286,851</b>	<b>-</b>	<b>289,286,851</b>
<b>Nonfinancial Assets</b>						
Investment in a subsidiary	-	106,715,694	106,715,694	-	106,715,694	106,715,694
Property and equipment - net	-	6,279,351	6,279,351	-	7,059,851	7,059,851
Deferred tax assets	-	869,928	869,928	-	773,147	773,147
Right-of-use asset	-	11,765,770	11,765,770	-	-	-
Other assets - gross	972,234	11,843,414	12,815,648	838,067	12,263,453	13,101,520
	<b>972,234</b>	<b>137,474,157</b>	<b>138,446,391</b>	<b>838,067</b>	<b>126,812,145</b>	<b>127,650,212</b>
Allowance for impairment and credit losses	-	-	(1,324,666)	-	-	(1,324,666)
	<b>₱386,229,372</b>	<b>₱137,474,157</b>	<b>₱522,378,863</b>	<b>₱290,124,918</b>	<b>₱126,812,145</b>	<b>₱415,612,397</b>
<b>Financial Liabilities</b>						
Accounts payable and accrued expenses	₱31,346,676	₱-	₱31,346,676	₱29,574,788	₱-	₱29,574,788
Notes payable	165,926,645	-	165,926,645	70,000,000	-	70,000,000
Lease liability	2,584,538	9,727,547	12,312,085	-	-	-
Dividend payable	662,088	-	662,088	662,088	-	662,088
	<b>200,519,947</b>	<b>9,727,547</b>	<b>210,247,494</b>	<b>100,236,876</b>	<b>-</b>	<b>100,236,876</b>
<b>Nonfinancial Liabilities</b>						
Deferred tax liability	-	-	-	-	-	-
Retirement liability	-	1,579,020	1,579,020	-	1,383,116	1,383,116
Other liabilities	1,048,632	-	1,048,632	1,002,782	-	1,002,782
	<b>1,048,632</b>	<b>1,579,020</b>	<b>2,627,652</b>	<b>1,002,782</b>	<b>1,383,116</b>	<b>2,385,898</b>
	<b>₱201,568,579</b>	<b>₱11,306,567</b>	<b>₱212,875,146</b>	<b>₱101,239,658</b>	<b>₱1,383,116</b>	<b>₱102,622,774</b>

## 27. Notes to Statement of Cash Flows

As at December 31, 2019, the Group reclassified advances to software developer included under 'Other assets' to software asset amounting to ₱1.29 million upon putting the new system into use (see Note 13).

As at December 31, 2018, the Group's and the Parent Company's outstanding balances of non-cash additions to property and equipment amounted to ₱2.96 million and ₱1.56 million, respectively.

### *Liabilities arising from financing activities*

The Group's financing liabilities consist of notes payable and lease liability. Changes in these financing liabilities in 2019 represent cash flows from availments and settlements of notes payable and payment of lease liability, as reflected in the statement of cash flows.

## 28. Event after the reporting period

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. Subsequent to May 15, 2020, the NCR and certain areas had been subjected to modified enhanced



community quarantine. Beginning June 1, 2020, NCR and certain areas were put under general community quarantine until June 15, 2020, which was subsequently extended to June 30, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Company considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

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## **29. Approval for the Release of Financial Statements**

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on June 25, 2020.



## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Units 1210-1212 and Units 1911-1912, PSE Tower  
5th Avenue corner 28th Street,  
Bonifacio Global City, Taguig City

We have audited the financial statements of AB Capital and Investment Corporation (the Company) as at and for the year ended December 31, 2019, on which we have rendered the attached report dated June 25, 2020.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the Company has seven (7) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.

*Janet A. Paraiso*

Janet A. Paraiso

Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-3 (Group A),

June 19, 2018, valid until June 18, 2021

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125203, January 7, 2020, Makati City

June 25, 2020



**INDEPENDENT AUDITOR'S REPORT  
ON THE SUPPLEMENTARY INFORMATION  
REQUIRED UNDER REVENUE REGULATIONS 15-2010**

The Board of Directors and Stockholders  
AB Capital and Investment Corporation  
Units 1210-1212 and Units 1911-1912, PSE Tower  
5th Avenue corner 28th Street,  
Bonifacio Global City, Taguig City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of AB Capital and Investment Corporation (the Company) as at and for the years ended December 31, 2019 and 2018 and have issued our report thereon dated June 25, 2020 which contained an unqualified opinion on those financial statements. 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 Revenue Regulations 15-2010 for the year ended December 31, 2019 is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. The information is also not required by Revised Securities Regulation Code Rule 68. Revenue Regulations 15-2010 require the information to be presented in the notes to financial statements. Such information is the responsibility of the management of the Company. 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.

*Janet A. Paraiso*

Janet A. Paraiso  
Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-3 (Group A),  
June 19, 2018, valid until June 18, 2021

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125203, January 7, 2020, Makati City

June 25, 2020



## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and Stockholders  
AB Capital and Investment Corporation  
Units 1210-1212 and Units 1911-1912, PSE Tower  
5th Avenue corner 28th Street,  
Bonifacio Global City, Taguig City

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of AB Capital and Investment Corporation and Subsidiary (the Group) and the parent company financial statements of AB Capital and Investment Corporation (the Parent Company), and have issued our report thereon dated June 25, 2020. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Revised Securities Regulation Code Rule 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Janet A. Paraiso*  
Janet A. Paraiso

Partner

CPA Certificate No. 92305

SEC Accreditation No. 0778-AR-3 (Group A),

June 19, 2018, valid until June 18, 2021

Tax Identification No. 193-975-241

BIR Accreditation No. 08-001998-62-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125203, January 7, 2020, Makati City

June 25, 2020





**AB CAPITAL AND INVESTMENT CORPORATION**  
**SUPPLEMENTARY INFORMATION REQUIRED UNDER**  
**REVENUE REGULATIONS (RR) 15-2010**

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The Parent Company reported and/or paid the following types of taxes for the year:

Percentage Tax

The Parent Company, as an investment house, is liable to pay percentage tax on interest income, trading gain and other income received in the regular course of its business.

Details of the Parent Company's gross receipts subjected to percentage tax are as follows:

<u>Taxable gross receipts</u>	<u>Gross receipts subjected to Percentage Tax</u>	<u>Percentage Tax</u>
Interest income (5.0%)	₱16,015,845	₱800,792
Others (5.0%)	43,657,595	2,182,880
	<b>₱59,673,440</b>	<b>₱2,983,672</b>

The Parent Company's sales of services are based on actual collections received.

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees.

Details of other taxes and licenses for 2019 consist of the following:

Local municipal taxes	₱64,036
Documentary stamp tax	-
SEC licenses	100,615
Other taxes	8,430
	<b>₱173,081</b>

Other taxes and licenses are reported and paid in accordance with existing regulations of the BIR in the case of national internal revenue tax, the concerned local office in the case of local taxes, and taxes applicable to SEC for the renewal of the Parent Company's license.

Withholding Taxes

Details of total remittances of withholding taxes as of December 31, 2019 are as follows:

	<u>Amount Remitted</u>	<u>Balance</u>
Withholding taxes on compensation	₱5,454,075	₱688,187
Expanded withholding taxes	450,081	23,067
	<b>₱ 5,904,156</b>	<b>₱711,254</b>



**AB CAPITAL AND INVESTMENT CORPORATION  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY SCHEDULES  
DECEMBER 31, 2019**

- I. Schedule showing transactions with DOSRI
- II. Map showing the relationships between and among the Group and its ultimate parent company
- III. Schedule of financial soundness indicators in two comparative periods



**AB CAPITAL AND INVESTMENT CORPORATION**  
**SCHEDULE SHOWING TRANSACTIONS WITH DOSRI**  
**UNDER REVISED SRC RULE 68**  
**DECEMBER 31, 2019**

Name of related party	Description of transaction	Total volume/ Amount of transaction	Terms and Condition				Carrying amount of asset used as collateral
			Rate	Maturity Date	Security	Mode of Payment	
Apalla, Ella	Salary loans	₱20,000	0.00%	11/30/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Asturias, Leoda	Salary loans	20,000	0.00%	1/25/2020	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Calleja, Alvin Emmanuel	Salary loans	20,000	0.00%	11/15/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Daguro, Premilyn	Salary loans	20,000	0.00%	1/25/2020	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Devila, Brian	Salary loans	20,000	0.00%	12/31/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Ducusin, Evelyn	Salary loans	20,000	0.00%	5/31/2020	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Fateg, Jocelyn	Salary loans	10,000	0.00%	5/25/2020	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Garcia, Alfred Benjamin	Salary loans	10,000	0.00%	3/25/2020	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Goco, Reynaldo	Salary loans	20,000	0.00%	12/31/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Guillena, Michelle	Salary loans	20,000	0.00%	12/31/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Junio, Gretchen	Salary loans	20,000	0.00%	4/15/2020	Unsecured	Payable in 6 months, every 10th & 25th of the month	-



**Consolidated**

Name of related party	Description of transaction	Total volume/ Amount of transaction	Terms and Condition			Carrying amount of asset used as collateral	
			Rate	Maturity Date	Security		
Lim, Tammy	Salary loans	10,000	0.00%	8/10/2019	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Llaguno, Jonna	Salary loans	10,000	0.00%	2/15/2020	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Manalang, Allysa	Salary loans	10,000	0.00%	10/15/2019	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Moyo, Glenton	Salary loans	10,000	0.00%	11/25/2019	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Sacueza, Rebecca	Salary loans	20,000	0.00%	11/25/2019	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Umali, Renato II	Salary loans	10,000	0.00%	11/25/2019	Unsecured	Payable in 6 months, every 10th & 25th of the month	-
Wee, Ericson	Salary loans	20,000	0.00%	8/10/2020	Unsecured	Payable in 6 months, every 10th & 25th of the month	-

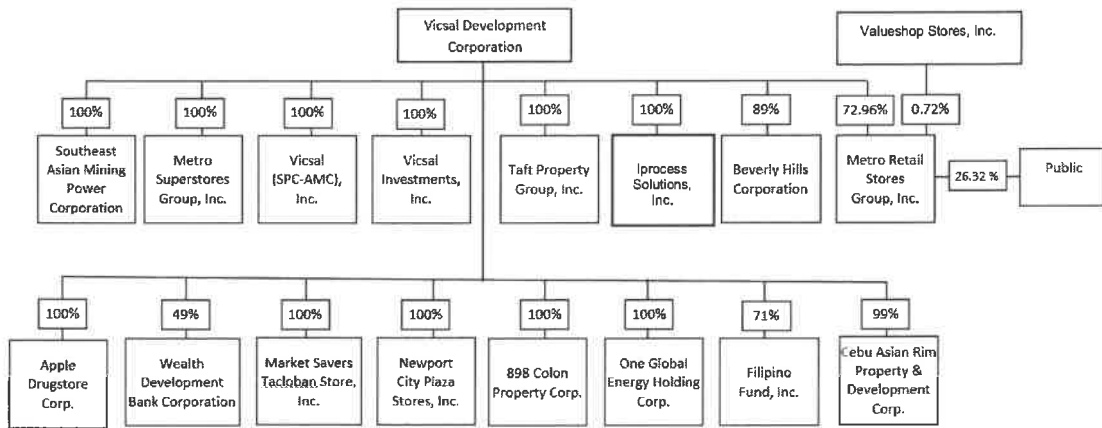


**Parent Company**

Name of related party	Description of transaction	Total volume/ Amount of transaction	Terms and Condition			Carrying amount of asset used as collateral	
			Rate	Maturity Date	Security		
Apalla, Ella	Salary loans	₱20,000	0.00%	11/30/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Calleja, Alvin Emmanuel	Salary loans	20,000	0.00%	11/15/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Devila, Brian	Salary loans	20,000	0.00%	12/31/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Ducusin, Evelyn	Salary loans	20,000	0.00%	5/31/2020	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Goco, Reynaldo	Salary loans	20,000	0.00%	12/31/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Guillena, Michelle	Salary loans	20,000	0.00%	12/31/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Llaguno, Jonna	Salary loans	10,000	0.00%	2/15/2020	Unsecured	Payable in 6 months, every 15th & 30th of the month	-
Manalang, Alysa Mari	Salary loans	10,000	0.00%	10/15/2019	Unsecured	Payable in 6 months, every 15th & 30th of the month	-



**AB CAPITAL AND INVESTMENT CORPORATION  
MAP SHOWING THE RELATIONSHIPS BETWEEN AND AMONG THE GROUP AND ITS  
ULTIMATE PARENT COMPANY  
UNDER REVISED SRC RULE 68  
DECEMBER 31, 2019**



**AB CAPITAL AND INVESTMENT CORPORATION**  
**SCHEDULE SHOWING FINANCIAL SOUNDNESS INDICATORS IN TWO COMPARATIVE**  
**PERIODS UNDER REVISED SRC RULE 68**  
**DECEMBER 31, 2019**

<b>Consolidated</b>				
<b>Ratio</b>	<b>Formula</b>	<b>Current year</b>	<b>Prior year</b>	
Current ratio	Total current assets divided by Total current liabilities			
	Current assets	969,769,083		
	Current liabilities	700,118,301		
		138.52%	<b>138.52%</b>	150.89%
Solvency ratio	Net income plus Depreciation divided by Total liabilities			
	Net income plus Depreciation	(7,485,889)		
	Total liabilities	722,162,981		
		(1.04%)	<b>(1.04%)</b>	(2.02%)
Debt-to-equity ratio	Total liabilities divided by Total equity			
	Total liabilities	722,162,981		
	Total equity	335,503,243		
		215.25%	<b>215.25%</b>	169.59%
Asset-to-equity ratio	Total assets divided by Total equity			
	Total assets	1,057,666,224		
	Total equity	335,503,243		
		315.25%	<b>315.25%</b>	269.81%
Interest rate coverage ratio	Income before interest and tax divided by Interest expense			
	Income before interest and tax	(3,237,612)		
	Interest expense	11,627,630		
		(27.84%)	<b>(27.84%)</b>	(1,117.06%)
<b>Profitability ratios:</b>				
Return on average equity	Net income divided by Average total equity			
	Net income	(19,613,821)		
	Average total equity	346,015,213		
		(5.67%)	<b>(5.67%)</b>	(3.96%)
Return on average assets	Net income divided by Average total assets			
	Net income	(19,613,821)		
	Average total assets	1,009,797,533		
		(1.94%)	<b>(1.94%)</b>	(1.74%)



<b>Consolidated</b>			
Ratio	Formula	Current year	Prior year
<b>Profitability ratios:</b>			
Net interest margin on average earning assets	Net income divided by Average total earning assets		
	Net income	24,134,468	
	Average earning assets*	686,604,106	
		3.52%	1.69%
<b>Parent Company</b>			
Ratio	Formula	Current year	Prior year
Current ratio	Total current assets divided by Total current liabilities		
	Current assets	386,229,372	
	Current liabilities	201,568,579	
		191.61%	286.57%
Solvency ratio	Net income plus Depreciation divided by Total liabilities		
	Net income plus Depreciation	2,814,380	
	Total liabilities	212,875,146	
		1.32%	(19.82%)
Debt-to-equity ratio	Total liabilities divided by Total equity		
	Total liabilities	212,875,146	
	Total equity	309,503,717	
		68.78%	32.54%
Asset-to-equity ratio	Total assets divided by Total equity		
	Total assets	522,378,863	
	Total equity	309,503,717	
		168.78%	132.54%
Interest rate coverage ratio	Income before interest and tax divided by Interest expense		
	Income before interest and tax	9,117,684	
	Interest expense	10,524,799	
		86.63%	(2,075.62%)
<b>Profitability ratios:</b>			
Return on average equity	Net income divided by Average total equity		
	Net income	(2,521,581)	
	Average total equity	311,246,670	
		(0.81%)	(6.43%)





<b>Parent Company</b>			
<b>Ratio</b>	<b>Formula</b>	<b>Current year</b>	<b>Prior year</b>
<b>Profitability ratios:</b>			
Return on average assets	Net income divided by Average total assets		
	Net income	(2,521,581)	
	Average total assets	468,995,630	
		(0.54%)	(5.36%)
Net interest margin on average earning assets	Net income divided by Average total earning assets		
	Net income	15,739,716	
	Average earning assets*	298,850,702	
		5.27%	2.21%

\*Average earning assets

Consolidated		
Description	2019	2018
Cash and cash equivalents	396,073,899	374,056,902
Financial assets at fair value through profit or loss	30,514	32,364
Financial assets at fair value through other comprehensive income	9,939,280	9,880,180
Investment securities at amortized cost	277,775,189	178,674,512
Receivables	60,077,167	60,353,770
Investment property	6,314,435	-
<b>Total</b>	<b>750,210,484</b>	<b>622,997,728</b>
<b>Average earning assets</b>	<b>686,604,106</b>	

Parent Company		
Description	2019	2018
Cash and cash equivalents	7,338,404	13,482,361
Investment securities at amortized cost	277,775,189	178,674,512
Receivables	60,077,167	60,353,770
Investment property	6,314,435	-
<b>Total</b>	<b>345,190,760</b>	<b>252,510,643</b>
<b>Average earning assets</b>	<b>298,850,702</b>	

