BancNet

Non-Stop Payment Network

HARNESSING THE POWER OF MOBILE IN e-PAYMENTS

2018 ANNUAL REPORT

About BancNet

BancNet is an electronic payments network in the Philippines that enables its members' customers to transact at Automated Teller Machines (ATM), point-of-sale (POS) terminals, the Internet, and mobile phones. It started operations on July 17, 1990. BancNet is the clearing switch operator for real-time electronic funds transfer, dubbed instaPay, under the National Retail Payment System.

Our Vision

BancNet is the preferred network that enables safe, efficient, and reliable delivery of financial and related services.

Our Core Values

EXCELLENCE in efficiently and accurately performing our jobs

CONCERN FOR EACH INDIVIDUAL as an important member of the team

INNOVATION in all areas of our business as a means of sustaining industry leadership

INTEGRITY in all our dealings and relationships

TEAMWORK in achieving our goals

These beliefs and values guide our business strategies, our corporate behavior, and our relationship with our members, suppliers, customers, communities, and each other.

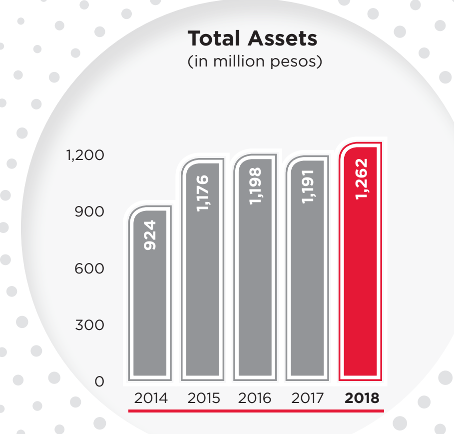
Contents

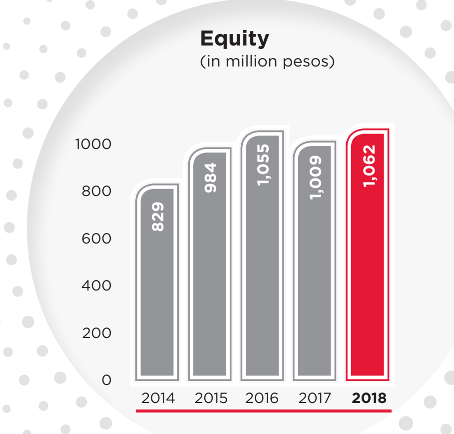
About the Cover

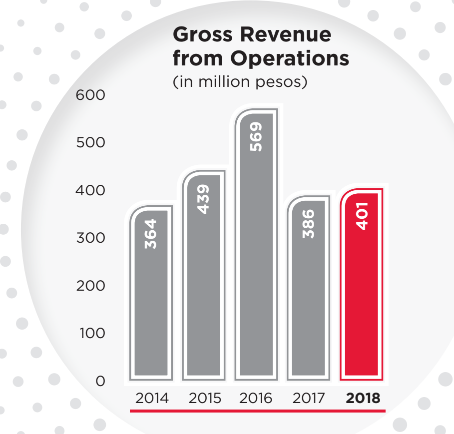
Today, millions of people own at least one mobile device and do more activities online, including shopping, ordering food, making payments, and doing banking transactions compared to five years ago.
A service that harnesses the potential of mobile devices as a financial tool is instaPay. Launched in 2018, instaPay enables instant and secure fund transfers and payments for people on the go.

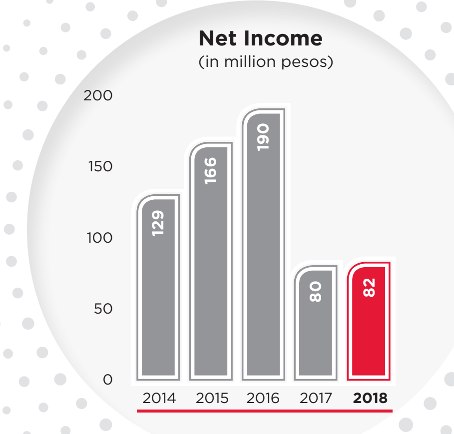
FINANCIAL HIGHLIGHTS

	2018	2017	2016	2015	2014
TOTAL ASSETS	₱ 1,262,490,879	₱ 1,190,516,021	₱ 1,197,754,706	₱ 1,175,623,092	₱ 924,319,472
EQUITY	₱ 1,061,675,188	₱ 1,009,389,322	₱ 1,054,711,060	₱ 983,656,683	₱ 829,365,799
GROSS REVENUE FROM OPERATIONS	₱ 400,502,496	₱ 386,322,387	₱ 569,411,355	₱ 439,026,730	₱ 363,939,145
NET INCOME	₱ 81,878,835	₱ 80,245,715	₱ 189,915,284	₱ 166,150,229	₱ 128,569,652









MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT

Nestor V. Tan   Cezar P. Consing

Dear Shareholders,

In the past two years your Board of Directors made two important decisions that would have a long-term impact on the future of BancNet.

The first decision centered on how BancNet would be run. Given that BancNet's shareholders are also its participants, the company would be run to encourage utilization of its services. Cost to participants would be reduced to encourage utilization, with participants that coursed the most transactions being rewarded with lower costs. Company management would focus on cost efficiency, and returns to shareholders, as measured by return on equity, would range in the high single digits, instead of the high teen returns on equity achieved in the past. Your Board made the assessment that the value created by BancNet, measured by the reduction in cost per transaction plus the company's net income after tax, would be greater as a result of the increased importance given to active participation in the clearing system.

This assessment has been proven correct. In 2018, our shareholders saved an aggregate amount of PhP153.12 million in transaction fees and earned PhP81.88 million in net income, for an aggregate benefit to shareholders of PhP235 million. This was 7 percent higher than 2017. We had a dividend payout of PhP37.86 million, the same amount as in 2017.

The second decision centered on the kind of company BancNet is. Our roots are in technology, and we have always strived to develop and use technology for the benefit of our participants and the market as a whole. However, given the increasingly rapid pace of technological change, it is no longer practical for us to think of ourselves as a company that develops and uses its own technology. Technological advances abound all around us, and we believe the role of BancNet is to try to harness the best technology available -- in terms of appropriateness and cost -- to serve its constituencies. Our objective is to be a clearing house where key elements of the required infrastructure are provided by world class technology companies. Thus, last year, in conjunction with our role as the clearing switch operator of instaPay, the service that enables real-time transfer of funds in relatively small amounts from one participating institution to another, we decided to enter into a managed service arrangement with Mastercard for its Vocalink real-time payment solution. Vocalink will overhaul our switch infrastructure, and provide us with a proven, state-of-the-art payments technology that will enable future use cases, cross-border fund transfers and other value-added services. We believe that BancNet's Vocalink-supported platform, when launched in 2020, will drive exponential growth in the use of instaPay and, in the process, increase BancNet's role in and contribution to the National Retail Payment System.

This initiative taken on the back of the two Board decisions outlined above is just one of the many accomplishments registered by BancNet last year. These accomplishments include the implementation of our integrated backroom support system covering transaction reconciliation, billing and settlement; the completion of EMV certification of participants' host systems, cards, and ATM and POS terminals; certification of Payment Card Industry Data Security Standard; and various capacity and network security upgrades. The list of our 2019 priorities is equally impressive, and includes using QR codes to effect real-time payments, payments to merchants and government agencies, enhancement of settlement risk management protocols, increased focus on regulatory compliance and, as always, the continued improvement of our service levels.

We have positioned BancNet to embrace the changes that come with new technologies, changing demographics and more competitive markets. The initiatives of the last few years give evidence to our resolve to ensure that BancNet remains a critical component of the Philippine financial system. We thank our shareholders, board of directors, management team, and employees for their contributions, their support and their trust.

Nestor V. Tan
Chairman of the Board

Cezar P. Consing
President

HIGHLIGHTS OF OPERATIONS

ANYONE WITH A BANK ACCOUNT OR E-WALLET CAN SEND FUNDS USING HIS CELLPHONE, TABLET, OR LAPTOP TO ANOTHER BANK OR EMI ACCOUNT ANYTIME, ANYWHERE.

The year 2018 was one of new milestones for BancNet, the leading electronic payments network in the country. Not only were we able to successfully rebuild our growth momentum, we set into motion some innovative projects and upgrades that helped us hit our goals for the year.

MODEST GROWTH

Our moves to remain at the forefront of e-payments in the Philippines were made amid a challenging economy. In 2018, the Philippine economy grew at a slower pace, failing to hit the government's target yet still one of the fastest in Asia, according to the National Economic and Development Authority (NEDA).

The full-year economic expansion was at 6.2 percent, slightly slower than the 6.7 percent GDP in 2017 and slightly below the government's target range of 6.5 percent to 6.9 percent.

Despite the challenging economic backdrop, BancNet was able to post modest growth for the year. It processed over 664.91 million switched transactions of nearly 72.70 million ATM and debit cards in 2018, an increase of 34.41 million or 5.46 percent from the 630.50 million switched transactions the previous year.

Even with the huge transaction volume, BancNet's average host availability for the year stood at 99.91 percent, higher than the previous year's 99.84 percent. The system had an average of 1.82 million switched transactions a day, peaking on December 21, 2018, the last Friday before Christmas, when volume surged to 4.2 million transactions. Our average transaction completion rate in 2018 was at a high 98.59 percent.

Gross revenues from operations amounted to PhP400.50 million, PhP14.18 million or 3.67 percent higher than in 2017, driven primarily by the growth in transaction volumes. ATM transaction fees made up 66 percent of gross revenues while switch outsourcing income contributed 15 percent and point-of-sale (POS) transaction fees 14 percent. Other sources of revenue growth included E-Gov transaction fees which jumped by 84 percent and income from the Internet payment gateway which rose by 13 percent.

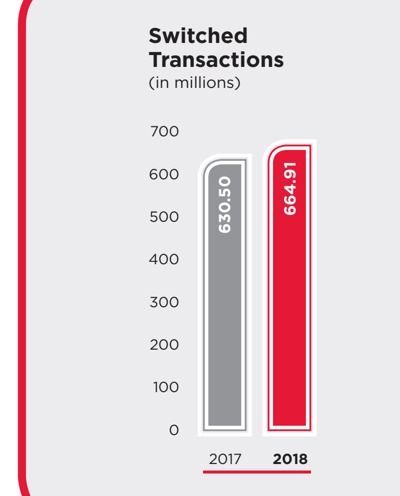
On the other hand, operating expenses went up by 8 percent year-on-year to PhP324.99 million in 2018 from PhP300.68 million. Incremental expenses were incurred mainly for substantial investments in and implementation of major business enabling projects namely, Two Factor Authentication, Business Support System (BSS), IST switch upgrade, and network security and other infrastructure upgrades. Salaries and benefits increased, too, due to regular merit increases and additional manpower requirements.

Net income amounted to PhP81.88 million, up from the PhP80.25 million of the previous year. Likewise, earnings per share grew to PhP43.25 from PhP42.39 in 2017 while return on equity increased to 7.91 percent from 7.78 percent the previous year.

BancNet's total assets stood at PhP1.26 billion at yearend, from PhP1.19 billion in 2017, while total equity grew to PhP1.06 billion from PhP1.01 billion the previous year.

MEMBER BASE, ATM NETWORK EXPANSION

Four new members joined our consortium, increasing our member base to 122 at end-2018. They are: Binangonan Rural Bank in Binangonan, Rizal; CIMB, the Philippines' first digital bank; Euronet Technology Services, Inc., an affiliate of Euronet Worldwide,



HIGHLIGHTS OF OPERATIONS

The Bangko Sentral ng Pilipinas launches instaPay, a vital automated clearing house in the National Retail Payment System, with BancNet as the clearing switch operator.

instaPay

Total instaPay Transactions
(April to December 2018)

2.3 Million	**PhP22.4 Billion**
Volume	**Value**

the leading independent network in Europe; and Novus Transact Philippines Corporation, a subsidiary of AGS Asia.

Our ATM network grew by 766 machines to end the year with 20,771 ATMs. Similarly, our POS network expanded by 25,670 terminals in one year to end 2018 with 270,872 terminals.

INSTAPAY: INNOVATIVE FUND TRANSFER, PAYMENT SOLUTION

BancNet has been one of the key partners in the flagship National Retail Payment System (NRPS) project of the Bangko Sentral ng Pilipinas (BSP). The NRPS framework defines high-level policies, principles, and standards which would establish a safe, efficient, and reliable payment system.

In line with this BSP initiative, BancNet developed the innovative instaPay system which made transferring funds safer, faster, and more convenient. The service was launched by the BSP on April 23, 2018 with 32 initial participating institutions.

instaPay is a person-to-person real-time low-value electronic fund transfer service that allows users to send money to other participating banks and non-bank electronic money issuers (EMI) through smartphones, tablets, and computers. Anyone with a bank account or e-wallet can send funds using his cellphone, tablet, or laptop to another bank or EMI account anytime, anywhere. The recipient will receive the money as soon as it is sent.

Not only did BancNet develop the infrastructure for instaPay, it also served as the system's clearing switch operator upon the service's launch.

By the end of 2018, instaPay had over 2.3 million transactions amounting to PhP22.38 billion.

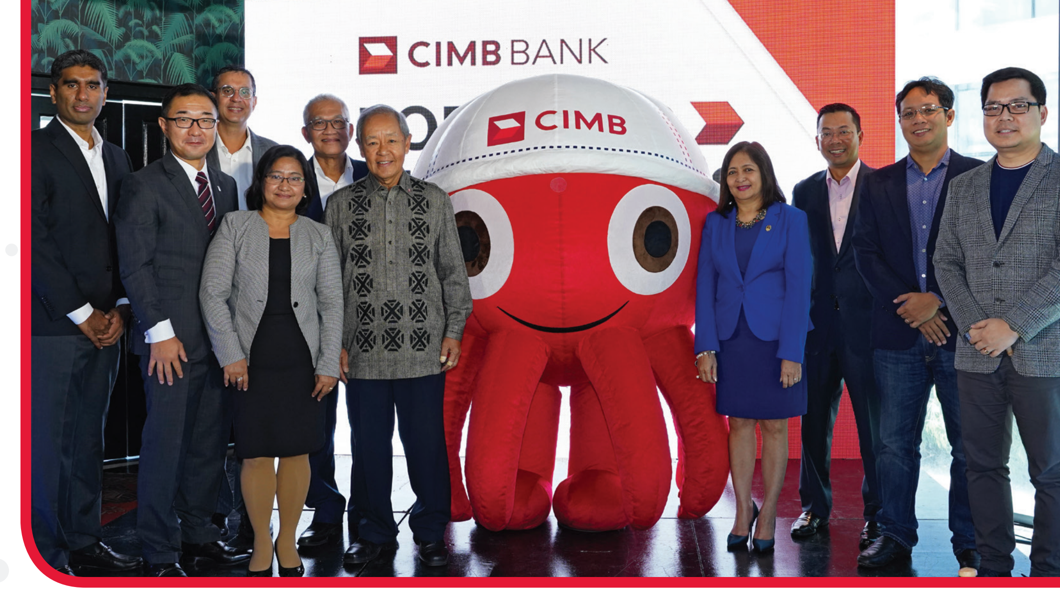
Before the year ended and after a thorough evaluation of available real-time payment (RTP) solutions, the BancNet Board decided to outsource the operation of instaPay to Vocalink, a Mastercard company. The BancNet-Mastercard collaboration, which was forged in December of 2018, enables BancNet to leapfrog several generations of payments technology and brings the country into the forefront of state-of-the-art innovations in account-based real-time payments.

The Vocalink technology is the gold standard in RTP solutions and the most widely used in the world. It is a robust and highly scalable system that provides instaPay participants with improved services, better data capabilities, and stronger security features.

By forging this global collaboration, BancNet can capitalize on Mastercard's more than 50 years of experience and geographical reach. The collaboration is also expected to propel the adoption of instaPay, in line with the BSP and the payments industry's shared vision of accelerating digital payments to 20 percent of all payment transactions in the country by 2020.

IST UPGRADE

As the demands of a digitally transformed business landscape grow and change with the times, we ensure that BancNet is able to keep up with the needed upgrades to its system. This was why in 2018, we again upgraded our main switch, the Information Switching Technology (IST), to the latest version. This upgrade also enabled acquirer-based fee-charging which has been mandated by the BSP and the acquiring of Union Pay International cards at participating member banks' ATMs.



CIMB, one of BancNet's newest members, celebrates its launch as the first all-digital bank in the Philippines.

ENHANCING SECURITY

One of our major achievements in 2018 was the completion of our EMV certification efforts for all our members' issuing and acquiring systems, ATMs, POS terminals, and debit cards.

A few years back, the BSP issued a mandate for banks to implement the EMV chip technology, a global industry standard for secure payment transactions, by January 1, 2017. We then went full steam with our EMV migration initiative for both the switch and our member banks.

After upgrading our IST switch to the EMV version, we began testing the host systems of our member-banks for their EMV readiness, the first step in certifying their systems' EMV compliance. By October 2018, all our member banks were already certified EMV-compliant.

BancNet was also certified compliant with the latest Payment Card Industry Data Security Standard (PCI DSS), a global data security standard used by all major card brands, during the year.

Compliance to PCI DSS version 3.2.1 is the latest measure undertaken by BancNet to protect the cardholders of its members and international partner networks from fraud and other malicious activities. BancNet is the first multi-channel payment network in the Philippines to be certified compliant to PCI DSS and has been certified compliant annually with previous versions since 2014.

The PCI DSS assessment covered payment processing through electronic channels such as ATMs, POS terminals, and the BancNet Online payment gateway. BancNet's clearing and settlement system also passed the rigid tests.

Moreover, to strengthen the security of the BancNet network from external attacks, we invested in a state-of-the-art firewall and in the Vulnerability Management Suite that constantly checks the robustness of applications against cyberattacks.

Together with the system upgrade, we also enhanced the security awareness of BancNet and member banks' employees through seminars and information security updates.

HIGHLIGHTS OF OPERATIONS

Euronet Technology Services, local affiliate of Euronet Worldwide, joins BancNet as an independent ATM deployer.

BUSINESS SUPPORT SYSTEM

In July of 2018, we completed the implementation of our Business Support System (BSS), a back-office system designed to handle partner management, settlement, and billing.

The BSS was developed specifically for BancNet's continuing thrust towards operational efficiency and enhanced flexibility to meet complex business requirements and was intended to replace our Bank Reconciliation and Tracking System (BARTS). BSS uses the Transaction Cycle Indicator technique to improve efficiency in monitoring and handling disputes and their corresponding solutions.

ATM SWITCH OUTSOURCING

One of BancNet's important value-added services is ATM switch outsourcing. This service was developed for member banks that do not have the resources or the capability to run their own ATM infrastructure or otherwise prefer to focus on their core businesses.

With the switch outsourcing service, BancNet will be the one to operate the member banks' ATM switches, allowing them to offer ATM services to their customers without having to invest heavily in the required infrastructure and manpower.

In 2018, we upgraded our ATM switch outsourcing infrastructure and streamlined its operations to enhance efficiency and pave the way for future expansion.

Nanapun Elementary School students get a brand new school building donated by BancNet and BDO Foundation.

CORPORATE SOCIAL RESPONSIBILITY

A major part of our corporate social responsibility initiatives is the giving of support, in one way or another, to people who need it the most. In 2018, BancNet responded to the government's call to help the battle-ravaged city of Marawi by funding the construction of a new school building. We undertook the project in partnership with the BDO Foundation.

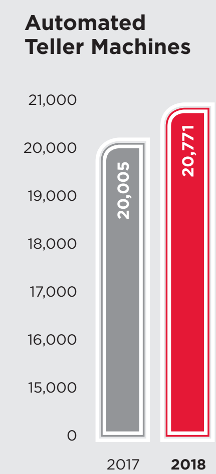
The new school building was constructed at the Nanapun Elementary School and has two stories and four classrooms, each with its own comfort room. The building, which was turned over on November 20, 2018, is fully furnished, complete with furniture and school equipment.

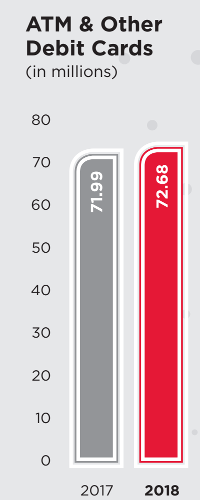
The school building project was in line with our belief that education is key to uplift people out of poverty. As such, the new school building was constructed in the hope of allowing the displaced school children of Marawi to continue with their studies and give them a chance for a better future.

LOOKING FORWARD

We are thankful for all the achievements we have made through the years leading to 2018, despite all the challenges in our business landscape. As always, these challenges will serve to strengthen our resolve to accomplish even more, particularly in an age where digital transformation has become a requisite for growth in our line of business. These challenges are also why we will continue to think of more and better ways to serve our clientele and grow with the times.

AUTOMATED TELLER MACHINE





During the past few years, the local banking industry was beset by fraudulent cash withdrawal transactions at automated teller machines (ATM) carried out primarily through card skimming. The banks addressed this challenge by implementing preventive measures, including the installation of anti-skimming devices, stricter ATM surveillance, and greater security awareness among their customers. Foremost of these is the adoption of the EMV standard. EMV, which stands for Europay-Mastercard-VISA, is a global security standard observed in the retail payments industry worldwide. It employs chip technology which is more secure than the traditional magnetic stripe technology. BancNet led the industry's EMV migration and fully supported its members' migration through testing and certification of their ATMs' EMV compliance. By October 2018, all ATMs in the BancNet network had been certified EMV-compliant. The full adoption of EMV standards substantially reduced the number of reported incidents of ATM card-related fraud.

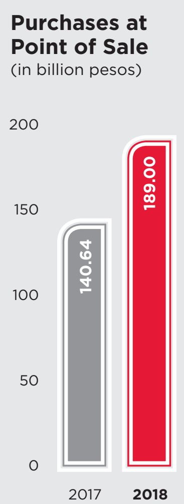
The ATM network expanded by 3.83 percent from 20,005 ATMs in 2017 to 20,771 in 2018. More than half of these, or 11,685 ATMs, were accounted for by the 5 largest members of the consortium: BDO with 4,096, BPI with 2,428, Land Bank with 1,969, Metrobank with 1,797 and PNB with 1,395.

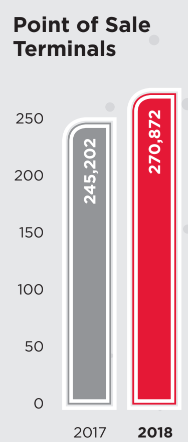
Two new affiliate independent ATM deployers, or IADs, joined BancNet in 2018, bringing the number of affiliate IADs to six. The two are Euronet Technology Services, Inc., the local affiliate of Euronet Worldwide and Novus Transact Philippines, an affiliate of AGS Asia. IADs contribute to the ATM network's expansion.

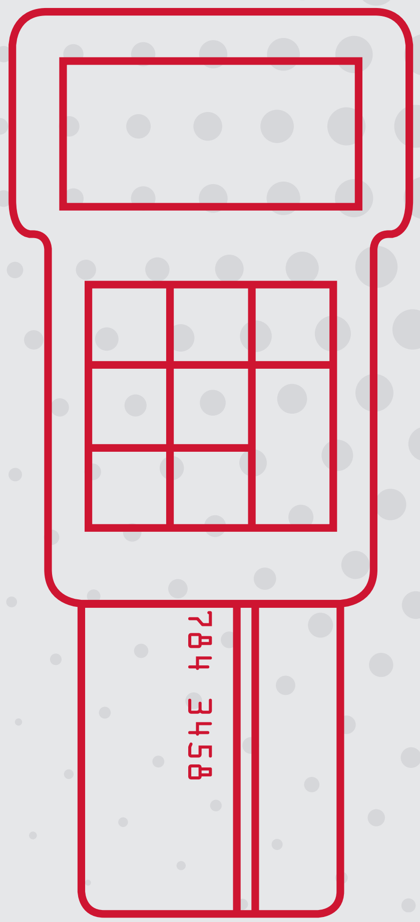
The average ATM availability rate during the year was 97.83 percent.

To assist members and network participants desiring to achieve higher ATM availability and usage, reduce the total cost of ATM operations, and focus on their core businesses, BancNet released in August a shortlist of accredited providers of ATM managed services. The shortlist was drawn up after a thorough evaluation of several providers based on their proven capability and track record in delivering the required end-to-end services in the Philippines and in other countries. The accredited providers are Fidelity National Information Services (FIS) and Euronet Worldwide. FIS is the world's largest global provider of financial technology solutions while Euronet is the top independent network in Europe and has a wide global ATM network that includes 25,000 fully managed ATMs.

POINT OF SALE







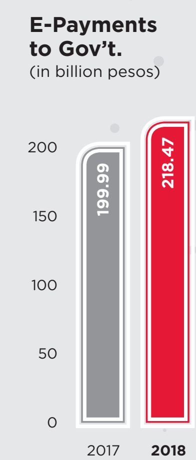
Like the automated teller machines (ATM), the point-of-sale (POS) terminals in the BancNet network became compliant with the Europay-Mastercard-VISA (EMV) security standard in October 2018. This means that the terminals can read chip cards and process transactions using these cards securely.

As of December 31, 2018, there were 270,872 POS terminals in the nationwide network, 25,670 terminals, or 10.47 percent more than at the end of 2017. They processed a total of 58.63 million purchase transactions valued at PhP188.91 billion, a growth of PhP48.27 billion, or 34.32 percent from PhP140.64 billion in the previous year.

The network's continued expansion and the growth in both purchase volume and value signify the market's greater adoption of cashless shopping driven by the convenience and security it offers and the push efforts by BancNet member banks.

Of the total number of POS terminals, 394 were Cash Out machines—terminals that can process cash withdrawals, with the partner establishments dispensing cash. These are located in areas where there are no ATMs, especially in the countryside. The Cash Out network performed creditably in 2018, with volume jumping from 592,043 transactions in 2017 to 1.12 million. These transactions amounted to a total of PhP5.23 billion, up 87.45 percent from PhP2.79 billion the year before. Forty six issuer banks participated in this facility during the year.

INTERNET



INTERNET PAYMENT GATEWAY

According to the Digital 2019 report of social media management firm *Hootsuite* and creative agency *We Are Social*, 57 percent of Internet users in the Philippines shopped on mobile commerce platforms and 54 percent used mobile banking platforms. Another study, by search engine *Google* and *Temasek*, cites an e-commerce revolution in the country driven by the growing number of online shopping sites led by *Lazada, Zalora* and *Shopee* which were patronized by around 37.7 million Filipino online shoppers in 2018. This growth was reflected in the number of e-merchants on BancNet's Internet Payment Gateway.

More than two hundred fifty new merchants were added to the platform, bringing the total to over 1,050 merchants at yearend. The volume of transactions posted during the year exceeded 79,000 with a total value of PhP48.84 million from customers of 19 member banks on board web portal BancNet Online. BancNet looks to ride the wave of the e-commerce revolution by enhancing its Internet Payment Gateway to enable more member banks to participate in 2019.

In 2018, BancNet further strengthened its network security by upgrading to a state-of-the-art firewall and installing the Vulnerability Management Suite that constantly checks the robustness of applications against cyberattacks. These are on top of security measures already in place such as two-factor authentication.

E-GOV

In 2018, E-Gov, the BancNet platform for payments to government agencies, processed 1.42 million transactions, spiking slightly from 1.40 million the year before. These had a total value of PhP218.47 billion, a growth of 9.24 percent from the level in 2017 at PhP199.99 billion.

As in previous years, tax payments to the Bureau of Internal Revenue (BIR) led this performance with total taxes paid increasing significantly by 19.43 percent to PhP190.97 billion – PhP31.07 billion more than taxes paid the previous year. Contributions to Philhealth which more than doubled from PhP2.99 billion to PhP7.01 billion also boosted this growth. Contributions and loan payments to Pag-ibig also increased, from PhP15.27 billion to PhP18.48 billion.

Filing and payment to the Social Security System (SSS) were temporarily deactivated in February as the agency upgraded its system. The E-Gov platform was reactivated in May; however, the participating member banks were able to connect to the new system only starting in December.

The participating banks on E-Gov numbered 24, up from 22 in 2017.

BOARD OF DIRECTORS

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UNIONBANK

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BPI
Vice Chairman and President

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PBCOM

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SECURITY BANK

RICHARD BENEDICT S. SO
Executive Vice President
METROBANK

NESTOR V. TAN
President and CEO
BDO
Chairman

JOSE ARNULFO A. VELOSO
President and CEO
PNB

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President
CHINA BANK

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Front Row: Natalie D. Uy, Elmarie S. Reyes, Cecilia A. Irigo, Myra A. Privado

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Agnes H. Maranan

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RCBC

Member
ALFONSO L. SALCEDO, JR.
Security Bank

Member
WILLIAM C. WHANG
China Bank

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EastWest Bank

Member
EDWIN R. BAUTISTA
UnionBank

Member
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BDO

Vice Chairman
DENNIS C. BANCOD
RCBC

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HSBC

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Citibank

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Landbank

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Philtrust

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China Bank

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PBCom

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PNB

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UnionBank

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BPI

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EastWest Bank

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Metrobank

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DBP

RALPH B. CADIZ
Sterling Bank

ANGELITO V. EVANGELISTA
Robinsons Bank

RANDALL ROGELIO A. EVANGELISTA
UCPB

RAINELDA I. GRAVES
Equicom Savings Bank

WILFREDO E. RODRIGUEZ, JR.
AUB

JAY S. VELASCO
Bank of Commerce

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ARISTEO P. ZAFRA, JR.
Executive Vice President
& Chief Executive Officer

JOSE ARNULFO A VELOSO
Treasurer

MARIE FE LIZA S. JAYME
Assistant Treasurer

AGNES H. MARANAN
Corporate Secretary

ELMARIE S. REYES
Senior Vice President
& Chief Finance Officer

CECILIA A. IRIGO
Vice President
Information Technology

ARNEL G. LIM
Vice President
Business Operations

NATALIE D. UY
Vice President
Business & Relationship
Management

ROEL DENNIS S. TAN
Vice President
Risk & Compliance

MYRA A. PRIVADO
Assistant Vice President
Outsourcing Services

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ROBERTO P. BLAS

Vice Chairman
JOSE LUIS A. ALCUAZ, JR.

Member
RAINELDA I. GRAVES

E-BANKING

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ROSEANN T. TAN

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ALAN V. BORNAS

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MARIE FE LIZA S. JAYME

Vice Chairman
ANGELITO V. EVANGELISTA

Member
RENATO K. DE BORJA

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Chairman
ANGELO DENNIS L. MATUTINA

Vice Chairman
GEORGE P. CASTRO

Member
GERARDO N. SUSMERANO

Member
RALPH B. CADIZ

Member
RANDALL ROGELIO A. EVANGELISTA

RISK AND COMPLIANCE

Chairman
ALAN V. BORNAS

Vice Chairman
JAY S. VELASCO

TECHNICAL

Chairman
DANIEL U. YU

Vice Chairman
WILFREDO E. RODRIGUEZ, JR.

OTHER SENIOR OFFICERS

MARIA JINKY A. BISCOCHO
Assistant Vice President
Systems

GAUDENCIO VALENTINO M. CARANDANG
Assistant Vice President
Client Services

ALLAN A. CRUZ
Assistant Vice President
Systems

NOEL D. DE CHAVEZ
Assistant Vice President
Technical Infrastructure & Support

ARLENE G. DOMACENA
Assistant Vice President
Systems

BERNADETTE B. CRISOLOGO
Senior Manager
Human Resources

MARIA JOCEN B. BASILLA
Senior Manager
Finance

FROILAN M. CASTILLO
Senior Manager
Data Center Operations

KAREN C. CHING
Senior Manager
Project Management

MYRNA GERALDINE M. GADIANO
Senior Manager
Systems

MARIA LOURDES J. ROMAN
Senior Manager
Relationship Management

JOSE P. SANTOS
Senior Manager
Dispute & Fraud Management

BENNETT ALFRED B. ZERRUDO II
Senior Manager
Product Management

CONSULTANT

MA. JASMIN L. BUÑAG
Corporate Communications

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of BancNet, Incorporated (the Company) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors (BOD) is responsible for overseeing the Company's financial reporting process.

The BOD reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

SGV & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

NESTOR V. TAN
Chairman of the Board

ARISTEO P. ZAFRA, JR.
Chief Executive Officer

ELMARIE S. REYES
Chief Financial Officer

Signed this 11th day of April 2019

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
BancNet, Incorporated

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BancNet, Incorporated (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 152010

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 152010 in Note 27 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of BancNet, Incorporated. 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
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. 7332517, January 3, 2019, Makati City

April 11, 2019

STATEMENTS OF FINANCIAL POSITION

	December 31 2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	**₱161,002,407**	₱82,221,875
Short-term investments (Note 7)	**314,416,620**	418,734,057
Receivables (Note 8)	**83,148,776**	58,579,835
Financial assets at fair value through profit or loss (Note 11)	**33,401,713**	–
Investment securities at amortized cost - current (Note 10)	**75,486,889**	–
Other current assets (Note 9)	**29,663,429**	17,115,013
Total Current Assets	**697,119,834**	576,650,780
Non-current Assets		
Investment securities at amortized cost - non-current (Note 10)	**250,507,722**	–
Available-for-sale investments (Note 11)	**–**	33,509,076
Held-to-maturity investments (Note 10)	**–**	310,787,172
Property and equipment (Note 12)	**132,852,952**	101,604,570
Intangible assets (Note 13)	**131,011,758**	122,856,026
Deferred tax assets (Note 22)	**13,518,667**	17,408,599
Net retirement asset (Note 19)	**24,620,762**	17,939,049
Other noncurrent assets (Note 14)	**12,859,184**	9,760,749
Total Non-current Assets	**565,371,045**	613,865,241
	₱1,262,490,879	₱1,190,516,021
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 16)	**₱159,059,664**	₱149,527,761
Income tax payable	**5,486**	90,111
Total Current Liabilities	**159,065,150**	149,617,872
Non-current Liabilities		
Deposits from alliance members (Note 23)	**32,837,500**	23,500,000
Other liabilities (Note 19)	**8,913,041**	8,008,827
Total Non-current Liabilities	**41,750,541**	31,508,827
Total Liabilities	**200,815,691**	181,126,699
Equity (Note 17)		
Capital stock	**189,300,000**	189,300,000
Additional paid-in capital	**83,972,092**	83,972,092
Retained earnings		
Appropriated	**610,000,000**	550,000,000
Unappropriated	**191,097,934**	207,117,747
Accumulated other comprehensive loss	**(12,694,838)**	(21,000,517)
Total Equity	**1,061,675,188**	1,009,389,322
	₱1,262,490,879	₱1,190,516,021

See accompanying Notes to Financial Statements.

STATEMENTS OF
INCOME

	Years Ended December 31	
	2018	2017
REVENUE FROM CONTRACT WITH CUSTOMERS		
Transaction fees (Note 18)	**₱392,574,817**	₱378,158,548
Membership fees	**7,927,679**	8,163,839
	400,502,496	386,322,387
EXPENSES AND OTHER CHARGES		
Salaries and employee benefits (Note 23)	**110,642,734**	129,536,340
Amortization of intangible assets (Note 13)	**50,368,165**	27,389,639
Computer maintenance and services	**39,003,455**	26,461,790
Depreciation of property and equipment (Note 12)	**33,046,196**	22,755,262
Switch hosting expense	**19,491,856**	19,195,488
Training and seminar	**14,889,046**	15,662,659
Communications	**12,234,899**	10,936,303
Outsourced services	**10,073,700**	8,218,437
Professional fees	**5,028,577**	5,594,147
Corporate affairs and special events	**4,391,065**	2,909,823
Transportation and travel	**4,307,155**	9,826,459
Taxes and licenses	**3,777,962**	5,207,533
Utilities	**2,397,038**	1,939,162
Office and computer supplies	**2,319,153**	2,455,964
Advertising and publicity	**–**	125,500
Miscellaneous (Note 21)	**13,020,580**	12,468,180
	324,991,581	300,682,686
OPERATING INCOME	**75,510,915**	85,639,701
OTHER INCOME		
Interest on:		
Investment securities at amortized cost / Held-to-maturity investments (Note 10)	**14,008,355**	10,681,693
Short-term investments (Note 7)	**11,806,059**	10,564,488
Cash and cash equivalents (Note 6)	**1,307,278**	892,266
Receivables (Note 23)	**424,912**	281,899
	27,546,604	22,420,346
Miscellaneous (Note 20)	**10,002,928**	3,961,270
	37,549,532	26,381,616
INCOME BEFORE INCOME TAX	**113,060,447**	112,021,317
PROVISION FOR INCOME TAX (Note 22)	**31,181,612**	31,775,602
NET INCOME	**₱81,878,835**	₱80,245,715
EARNINGS PER SHARE (Note 24)	**₱43.25**	₱42.39

See accompanying Notes to Financial Statements.

STATEMENTS OF
COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	**81,878,835**	80,245,715
OTHER COMPREHENSIVE INCOME (LOSSES)		
Item that will not be reclassified to profit or loss:		
Remeasurement gains (losses) on net retirement asset (Note 19)	**13,027,448**	(17,347,436)
Less tax effect	**(3,908,235)**	5,204,231
	9,119,213	(12,143,205)
Item that will be reclassified to profit or loss:		
Net unrealized gains on available-for-sale investments (Note 11)	**–**	155,752
	9,119,213	(11,987,453)
TOTAL COMPREHENSIVE INCOME	**90,998,048**	68,258,262

See accompanying Notes to Financial Statements.

STATEMENTS OF
CHANGES IN EQUITY

	Year Ended December 31, 2018					
	Capital Stock (Note 17)	**Additional Paid-in Capital** (Note 17)	**Appropriated Retained Earnings** (Note 17)	**Unappropriated Retained Earnings** (Note 17)	**Accumulated Other Comprehensive Losses** (Note 19)	**Total Equity**
Balances at December 31, 2017	**₱189,300,000**	**₱83,972,092**	**₱550,000,000**	**₱207,117,747**	**(₱21,000,517)**	**₱1,009,389,322**
Effect of adoption of PFRS 9, *Financial Instruments* (Note 2)	**–**	**–**	**–**	**(38,648)**	**(813,534)**	**(852,182)**
Balances at January 1, 2018	**189,300,000**	**83,972,092**	**550,000,000**	**207,079,099**	**(21,814,051)**	**1,008,537,140**
Net income	**–**	**–**	**–**	**81,878,835**	**–**	**81,878,835**
Other comprehensive income	**–**	**–**	**–**	**–**	**9,119,213**	**9,119,213**
Total comprehensive income	**–**	**–**	**–**	**81,878,835**	**9,119,213**	**90,998,048**
Cash dividends (Note 17)	**–**	**–**	**–**	**(37,860,000)**	**–**	**(37,860,000)**
Appropriation (Note 17)	**–**	**–**	**60,000,000**	**(60,000,000)**	**–**	**–**
Balances at December 31, 2018	**₱189,300,000**	**₱83,972,092**	**₱610,000,000**	**₱191,097,934**	**(₱12,694,838)**	**₱1,061,675,188**

	Year Ended December 31, 2017					
	Capital Stock (Note 17)	Additional Paid-in Capital (Note 17)	Appropriated Retained Earnings (Note 17)	Unappropriated Retained Earnings (Note 17)	Accumulated Other Comprehensive Losses (Notes 11 and 18)	Total Equity
Balances at December 31, 2016	₱189,300,000	₱83,972,092	₱500,000,000	₱290,452,032	(₱9,013,064)	₱1,054,711,060
Net income	–	–	–	80,245,715	–	80,245,715
Other comprehensive losses	–	–	–	–	(11,987,453)	(11,987,453)
Total comprehensive income	–	–	–	80,245,715	(11,987,453)	68,258,262
Cash dividends (Note 17)	–	–	–	(113,580,000)	–	(113,580,000)
Appropriation (Note 17)	–	–	50,000,000	(50,000,000)	–	–
Balances at December 31, 2017	₱189,300,000	₱83,972,092	₱550,000,000	₱207,117,747	(₱21,000,517)	₱1,009,389,322

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱113,060,447**	₱112,021,317
Adjustments for:		
Amortization of intangible assets (Note 13)	**50,368,165**	27,389,639
Depreciation on property and equipment (Note 12)	**33,046,196**	22,755,262
Interest income	**(27,546,604)**	(22,420,346)
Net change in retirement asset	**6,345,735**	(28,400,341)
Amortization of premium on investment securities at amortized cost / held-to-maturity investments	**1,075,158**	1,041,093
Trading losses on financial assets at FVTPL (Note 11)	**107,363**	–
Unrealized foreign exchange losses	**88,349**	780,777
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Receivables	**(18,121,815)**	(4,800,339)
Other current assets	**(12,548,416)**	(2,083,365)
Other non-current assets	**(3,098,435)**	567,759
Increase in amounts of:		
Accounts payable and accrued expenses	**5,640,809**	38,711,475
Other liabilities	**904,214**	2,172,932
Net cash generated from operations	**149,321,166**	147,735,863
Interest received	**21,099,478**	17,856,786
Income taxes paid	**(30,919,319)**	(47,628,495)
Net cash provided by operating activities	**139,501,325**	117,964,154
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Short-term investments	**(1,064,067,461)**	(1,342,358,217)
Investment securities at amortized cost / Held-to-maturity investments	**(17,500,000)**	(43,000,000)
Property and equipment (Notes 12 and 25)	**(65,817,890)**	(29,709,470)
Intangible assets (Notes 13 and 25)	**(53,265,897)**	(35,890,095)
Proceeds from:		
Short-term investments	**1,168,252,239**	1,472,926,702
Disposals of property and equipment (Note 12)	**156,406**	279,646
Net cash provided by (used in) investing activities	**(32,242,603)**	22,248,566
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid (Note 17)	**(37,860,000)**	(113,580,000)
Increase (decrease) in deposits from alliance members (Note 23)	**9,337,500**	(2,000,000)
Net cash used in financing activities	**(28,522,500)**	(115,580,000)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**44,310**	(768,777)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**78,780,532**	23,863,943
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash on hand	**203,214**	30,000
Cash in banks	**54,796,825**	32,783,828
Short-term cash placements	**27,221,836**	25,544,104
	82,221,875	58,357,932
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash on hand	**30,000**	203,214
Cash in banks	**43,647,740**	54,796,825
Short-term cash placements	**117,324,667**	27,221,836
	₱161,002,407	₱82,221,875

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. General Information

BancNet, Incorporated (the Company) was incorporated in the Philippines on August 29, 1989 and started commercial operations on July 17, 1990.

The Company was organized primarily to own, provide, install, operate, and manage enhancements to services of banks, non-bank financial institutions, corporations, associations, and/or switch networks and their affiliates and customers within and outside the Philippines related to electronic banking, payments and settlements, processing and information service.

The Company's principal place of business is at 19th Floor, Equitable Tower, 8751 Paseo de Roxas, Makati City.

The accompanying financial statements were approved and authorized for issue by the Company's Board of Directors (BOD) on April 11, 2019.

2. Significant Accounting Policies

Basis of Financial Statement Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets at financial assets through profit or loss and available-for-sale investments that are measured at fair value. The financial statements are presented in Philippine peso (₱), which is the Company's functional currency.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2018. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance, unless otherwise indicated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

  The Company has adopted PFRS 9 effective January 1, 2018 using the modified retrospective approach. The Company has not restated the comparative information, which continued to be reported under PAS 39. Adjustments arising from the adoption of PFRS 9 have been recognized in retained earnings as of January 1, 2018.

  (a) *Classification and Measurement*
  Under PFRS 9, debt financial assets are classified and measured at fair value through profit or loss (FVTPL), amortized cost (AC), or fair value through other comprehensive income (FVOCI). The classification is based on: the Company's business model for managing the financial assets; and whether the financial instrument's contractual cash flows represent "solely payments of principal and interests" or "SPPI" on the principal amount outstanding.

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

  As at December 31, 2017, the Company's investments in government and corporate debt securities classified as 'Held-to-maturity (HTM) investments' and its cash and cash equivalents, short-term placements, receivables and other financial assets classified as 'Loans and receivables' under PAS 39 are held to collect contractual cash flows and give rise to cash flows that are SPPI. Accordingly, these financial assets are continued to be carried at amortized cost, and are classified as 'Financial assets at amortized costs' starting January 1, 2018.

  Investments in mutual funds, previously classified as 'Available-for-sale (AFS) investments' under PAS 39, failed the SPPI test and thus, mandatorily classified as FVTPL under PFRS 9. The net unrealized losses in other comprehensive income (OCI) previously recognized under PAS 39 amounting to ₱813,534 as at January 1, 2018 has been transferred from OCI to retained earnings.

  The Company's financial liabilities which include accounts payable and accrued expenses (excluding statutory liabilities), deposit from alliance members and other liabilities remained to be classified at amortized costs upon transition.

  (b) *Impairment*
  The adoption of PFRS 9 has fundamentally changed the Company's measurement of impairment losses for its financial assets - from PAS 39's incurred loss approach to a forward-looking expected credit loss (ECL) approach. Under PFRS 9, the Company is required to provide ECL for financial assets at AC and FVOCI. The allowance is based on the ECLs associated with the risk of default in the next twelve months unless there has been a significant increase in credit risk since origination or the financial assets are impaired where lifetime ECL is provided. For trade receivables without significant financing component, the Company applies the simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk but instead recognizes an allowance based on lifetime ECL at each reporting period.

  Upon the adoption of PFRS 9, the Company assessed that its cash in banks and short-term investments are considered low credit risk financial assets. In addition, as these financial assets are either repayable on demand or on a very short-term basis, the Company determined that the impact of recognizing 12-month ECL as at January 1, 2018 for these financial assets is not significant.

  The Company used the simplified approach and applied the practical expedient to calculate the ECL using the provision matrix for trade receivables that do not contain significant financing component. The Company assessed that the impact of recognizing ECL for its trade receivables is not material as the risk of default of counterparties is low.

  The Company used the general approach for its investments in government and corporate debt securities and other receivables. As at January 1, 2018, the Company has recognized ECL for its investments in government and corporate debt securities classified as Financial assets at amortized cost amounting to ₱1,217,403, resulting in decrease in Retained earnings amounting to ₱852,182, net of Deferred tax asset of ₱365,221.

  The Company assessed that the risk of default for other receivables (mostly composed of advances to employees and member banks) is low and does not demonstrate significant increase in credit risk. As a result, no additional impairment on its other receivables was recognized.

- PFRS 15, *Revenue from Contracts with Customers*
  PFRS 15 supersedes PAS 11 *Construction Contracts*, PAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be 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.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 effective January 1, 2018 using a modified retrospective approach.

The adoption did not have significant impact on the Company's financial statements, as there is no significant change in the Company's revenue recognition for transaction and membership fees as a result of applying the five-step model under PFRS 15 (Note 2).

Summary of Significant Accounting Policies

Foreign Currency Translation
For financial reporting purposes, foreign currency-denominated monetary assets and liabilities are translated into their equivalents in Philippine peso based on the closing rate prevailing at the reporting date and foreign currency-denominated income and expense at the exchange rate at the date of transaction. Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against current operations in the year in which the rates change.

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

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and in banks and short-term cash placements that are readily convertible to a known amount of cash with original maturities of three months or less from the date of placement and that are subject to insignificant risks of changes in value.

Short-term Investments
Short-term investments include short-term placements with original maturities of more than three months from the date of placement.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Receivables, deposit from alliance members, accounts payable, accrued expenses, due to member banks and other liabilities are recognized when cash is received by the Company or advanced to the borrowers.

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

Classification and subsequent measurement of financial instruments (policy applicable beginning January 1, 2018)

Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Company's business model for managing financial assets. The Company classifies its financial assets into financial assets into the following categories: financial assets at FVTPL, FVOCI and financial assets measured at amortized cost.

Contractual cash flows characteristics
The Company assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding. Instruments with cash flows that do not represent as such are classified at FVTPL.

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

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

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

As of December 31, 2018, the Company has no financial assets classified as FVOCI.

Financial assets at amortized cost
A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is

calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset. Losses arising from impairment are recognized in 'Provision for credit losses' under 'Miscellaneous expenses' in the statement of income. The Company's financial assets at amortized cost consist of 'Cash and cash equivalents', 'Short-term investments', 'Investment securities at amortized cost', 'Receivables' and other financial assets included under 'Other current assets'.

Financial assets at FVTPL
Financial assets in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under PFRS 9.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in the statement of income. Unrealized gains and losses arising from changes in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposal of these instruments are reported as 'Trading gains (losses) on financial assets at FVTPL' included under 'Miscellaneous income' in the statement of income.

As of December 31, 2018, the Company has classified its investment in mutual funds as financial assets at FVTPL.

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

Classification and subsequent measurement of financial instruments (policy applicable before January 1, 2018)
The Company classifies its financial assets in the following categories: financial assets at FVTPL, AFS investments, HTM investments, and loans and receivables. Financial liabilities are classified in the following categories: financial liabilities at FVTPL and other liabilities measured at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and where allowed and appropriate, re-evaluates this designation at every reporting date.

The Company has no financial assets and liabilities at FVTPL as of December 31, 2017.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Company's management has the positive intention and ability to hold to maturity. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. The Company would also be prohibited from classifying any financial asset to HTM investments during the following two years.

After initial measurement, HTM investments are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process.

AFS investments
AFS financial assets are those which are designated as such or do not qualify to be classified or designated as loans and receivables, financial assets at FVTPL or HTM investments. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as 'Net unrealized gains or losses on available-for-sale financial assets' in OCI. The losses arising from impairment of such investments are recognized as provision for impairment losses in the statement of income. When the security is disposed of, the cumulative gains or losses previously recognized in OCI are recognized as realized gains or losses in the statement of income.

Loans and receivables
Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Company has no intention of trading. After initial measurement, receivables are subsequently measured at amortized cost using the EIR method, less allowance for credit losses, if any. The estimated losses are based on management's evaluation of collectability of the receivables and historical collection experience (see accounting policy on Impairment of Financial Assets).

The Company's loans and receivables include 'Cash and cash equivalents', 'Short-term investments', 'Receivables' and other financial assets included under 'Other current assets'.

Financial liabilities at amortized cost (policy applicable before and after January 1, 2018)
Issued financial instruments or their components, which are not designated at FVTPL, are classified as financial liabilities at amortized cost which include 'Deposits from alliance members', 'Accounts payable and accrued expenses', 'Due to member banks' and other liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets (policy applicable before and after January 1, 2018)
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;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

Financial liabilities (policy applicable before and after January 1, 2018)
A financial liability is derecognized when the obligation under the liability is discharged or canceled, or has expired.

<u>Offsetting Financial Instruments</u>
Policy applicable before and after January 1, 2018
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

<u>Impairment of Financial Assets</u>
Policy applicable beginning January 1, 2018
PFRS 9 requires the Company to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

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

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

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

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

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

For credit-impaired financial instruments:
- Financial instruments are classified as Stage 3 when there is objective evidence of impairment.

ECL parameters and methodologies
For 'Cash and cash equivalents', 'Short-term investments' and 'Investments at amortized cost', the Company's calculation of ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

For trade receivables, the Company applied the simplified approach using a provision matrix that considers historical loss experience adjusted for current conditions and forward-looking inputs and assumptions.

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

Write-offs
Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. Any subsequent recoveries are credited to 'Provision for credit losses' under 'Miscellaneous expenses' in the statement of income.

Policy applicable prior to January 1, 2018
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost which include receivables and HTM investments, the Company first assesses whether objective evidence of impairment exists for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized thereafter based on the original EIR of the asset. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Such financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit losses' account.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

<u>Fair Value Measurement</u>
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.

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

The fair value for financial instruments traded in active markets at reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, and other relevant valuation models.

<u>Property and Equipment</u>
Property and equipment which includes building and building improvements, computer and other office equipment, transportation equipment, and furniture and fixtures are stated at cost less accumulated depreciation, and any impairment in value.

The initial cost of property and equipment comprise its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, both the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation is computed on a straight-line basis over the estimated useful life of the assets. The estimated useful lives of the assets are as follows:

Building	35 years
Building improvements	3 - 10 years
Computer and other office equipment	3 years
Transportation equipment	5 years
Furniture and fixtures	3 years

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

The carrying values of the property and equipment are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount (see policy on Impairment of Property and Equipment, Intangible Assets and Other Assets).

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

<u>Intangible Assets</u>
Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or infinite.

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

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

Amortization is computed on a straight-line basis over the estimated useful life of the assets. The estimated useful lives of the assets are as follows:

Customer relationship asset	5 years
Software costs	3 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

<u>Impairment of Property and Equipment, Intangible Assets and Other Assets</u>
At each reporting date, the Company assesses whether there is any indication that its property and equipment, intangible assets and other assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against current operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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

<u>Value-added Tax (VAT)</u>
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

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

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

<u>Revenue from Contracts with Customers</u>
Policy applicable beginning January 1, 2018
The Company is in the business of providing services that will interlink ATMs, POS terminals and other online computer equipment of banks, financial institutions, associations, switch networks and other affiliates. These services are within the scope of PFRS 15, *Revenue from contracts with customers*.

To account for the revenues arising from contracts with customers, the Company applies the following five step model.
a. Identify the contract(s) with a customer
b. Identify the performance obligations in the contract
c. Determine the transaction price
d. Allocate the transaction price to the performance obligations in the contract
e. Recognize revenue when (or as) the entity satisfies a performance obligation.

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

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

Transaction fees
The Company concluded that it is acting as principal in the arrangement with member banks to process the transactions of its cardholders. The transaction fees are recognized point-in-time, i.e. upon successful processing of the transactions. The normal credit term is thirty (30) days from invoice date.

Membership fees
The Company assessed that it is acting as principal in its arrangements on non-refundable joining fees and annual membership fees with its member banks. The non-refundable joining fees are recognized point-in-time, i.e. upon successful connection and integration of the member banks in the Company's network. On the other hand, the annual membership fees are recognized over time as the Company is providing a series of distinct services such as continuous maintenance of the switch network. The normal credit term is thirty (30) days from invoice date.

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

<u>Revenue recognition (outside the scope of PFRS 15)</u>
Interest income
Interest income on cash and cash equivalents, short-term investments and investment securities at amortized cost is recognized on a time proportion basis as it accrues using the effective interest rate method.

<u>Revenue Recognition</u>
Policy applicable prior to January 1, 2018
The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company concluded that it is acting as a principal in all its revenue arrangements.

Revenue or income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue or income can be reliably measured. The following specific recognition criteria must also be met before revenue or income is recognized:

Transaction fees
Transaction fees are recognized when the transaction is consummated.

Membership fees
Membership fees consist of joining fees and annual fees. Joining fees are recognized when access to the network is provided to the joining bank. Annual fees such as processing fees and subscription fees are deferred and amortized over the service period.

Interest income
Interest income on deposits in bank and short-term cash placements is recognized as interest accrues and interest income on HTM investments is recognized using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the interest-bearing financial instruments or a shorter period, where appropriate, to the net carrying amount of the financial assets.

Expense Recognition
Expense is recognized when there is a decrease in the economic benefit during the accounting period in the form of an outflow or a decrease in asset and an increase in liability that results in a decrease in equity, other than distributions to equity participants.

Retirement Expense
The Company's personnel are covered by a noncontributory defined benefit retirement plan.

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

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

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

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related pension liability.

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

Other Employee Benefits
The Company recognizes the expected costs of employee benefits in the form of accumulated compensated absences, when the employee renders services that increase their entitlement to future compensated absences, and in the case of compensated absences, when absences occur. The cost benefit in the form of accumulated compensated absences is measured at the remuneration rates expected to be paid when the liability is settled. Benefits that are expected to be settled after 12 months from the reporting date are presented under noncurrent liabilities in the statements of financial position.

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

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

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

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

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

Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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 profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current and deferred tax relating to items recognized directly in OCI is also recognized in OCI and not in the statement of income.

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

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to any stock dividends or stock splits, if any, declared during the year. Diluted EPS is computed by dividing net income applicable to common stockholders by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of diluted potential common shares.

Book Value Per Share
Book value per share (BVPS) is the amount that would be paid on each share assuming the Company is liquidated and assuming the amount available to shareholders is exactly the amount reported as shareholders' equity. BVPS is computed by dividing total equity in the statement of financial position by the number of shares outstanding at the end of the year.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company in the case of cash dividends and the BOD and shareholders of the Company in the case of stock dividends. Dividends for the year that are approved after the reporting date are dealt with as events after the reporting period.

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

New standards and interpretations that have been issued but are not yet effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect the future adoption of the said pronouncements to have a significant impact on the financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - o Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - o Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - o Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

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*

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

The following are the critical judgments and key assumptions that have significant risks of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments
The Company determined that there are no significant judgment that would have significant impact on the carrying amounts of assets and liabilities in the financial statements.

Estimates
Pension and other employee benefits
The determination of obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used by the Company in calculating such amounts. Those assumptions include, among others, discount rates and future salary increase rates.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date. Future salary increases are based on expected future inflation rates, seniority, promotion and other market factors.

While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the cost of employee benefits and related obligations.

The Company also estimates other employee benefit obligations and expenses, including costs of paid leaves based on historical leave availments of employees, subject to the Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

The amounts of net retirement asset and accrued other employee benefits are disclosed in Note 19.

Estimated useful lives of intangible assets
The Company estimates the useful lives of its intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of intangible assets are reviewed at least annually and are updated if expectations differ from previous estimates due to technical or commercial obsolescence and legal or other limits on the use of the assets.

Management assessed that the customer relationship asset (Note 14) has a finite useful life as there is a foreseeable limit to the period over which the asset is expected to generate net cash inflows due to expected changes in the Company's business model. Management also assessed that the software costs have a finite useful life. The Company either configures or enhances existing software which may render prior configurations obsolete. The estimation of the useful lives of software costs is based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the aforementioned factors. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of intangible assets would increase the recorded amortization and decrease noncurrent assets. The estimated lives of intangible assets are disclosed in Note 2.

4. Financial Risk Management Objectives and Policies

The financial activities of the Company allow some exposures to risks. The Company's BOD is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for any risks taken by the Company. The BOD makes sure that the risk framework system, which includes the policies and risk control procedures that management adopts, clearly assesses, monitors and mitigates any exposures to risks.

Senior Management is responsible for the proper implementation of these risk policies and procedures throughout the whole organization. They are further responsible for the submission of regular reports to the BOD to monitor risk exposures of the Company. The BOD, on the other hand, periodically reviews the Company's risk framework system for possible improvements, given the fast-changing environment and other developments in the industry.

The Company's principal financial assets consist of cash and cash equivalents, short-term investments, receivables, financial assets at FVTPL / AFS investments, investment securities at amortized cost / HTM investments, and other current assets. The financial liabilities of the Company, which arise directly from its operations, comprise deposits from alliance members, accounts payable and accrued expenses and other liabilities.

The main risks arising from the Company's financial instruments are credit risk, market risk, liquidity risk and operational risk. The BOD reviews and approves policies for managing each of these risks and these 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 Company manages credit risk by setting limits to groups of clients and industry segments. The Company also monitors credit exposures and continually assesses the creditworthiness of counterparties.

Maximum exposure to credit risk
The Company's exposure to credit risk is minimal as settlement of the majority of the receivables is facilitated by the appointed Settlement Bank through regular settlement procedures followed by all members via the Bangko Sentral ng Pilipinas' (BSP) Philippine Payments and Settlement System (PhilPaSS) facility. PhilPaSS is an automated payments facility run by the BSP to effect payment transactions between banks through their demand deposit accounts maintained with the BSP.

As of December 31, 2018 and 2017, the carrying amounts of the financial assets represent the maximum exposure to credit risk.

Collateral and other credit enhancements
The amount and type of collateral required depends on the assessment of the credit risk of the borrower or counterparty. As of December 31, 2018 and 2017, the Company has no collateral held and other credit enhancements.

Credit quality per class of financial assets
The Company classifies the credit quality of its financial assets as performing and non-performing. The Company's bases in grading its financial assets follow:

Performing
High Grade - assets that are judged to be of high quality and are subject to minimum credit risk

Standard Grade - assets that are judged to be of medium grade quality and are subject to moderate credit risk

Past due but not impaired - receivables that are long outstanding but are assessed to be collectable

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

Applicable beginning January 1, 2018
Credit risk from balances with banks and investments in government and corporate debt securities are managed by the Company's Finance Department in accordance with the Company's policy. The Company's funds are invested only in Philippine government securities or corporates that are directly, or comparably with the peer institutions, rated as investment grade by the global external rating agency. Accordingly, placements in the Philippine government and corporates are considered to be low credit risk investments. As of December 31, 2018, the Company determined that these investments are classified as Stage 1, with the amounts specified as follows:

	High grade
Cash and cash equivalents*	₱160,972,409
Short-term investments	314,416,620
Financial assets at FVTPL	33,401,713
Investment securities at amortized cost	327,212,014
	₱836,002,756

**Excludes cash on hand*

The Company assessed that as of December 31, 2018, the impact of 12-month ECL for cash and cash equivalents and short-term investments is not material. For the investment in securities at amortized cost, the Company recognized expected credit loss amounting to ₱1,217,403 as of December 31, 2018 (Note 15).

Customer credit risk is managed by the Company's Finance Department subject to the Company's established policy, procedures and control relating to customer credit risk management. The Company uses days past due to monitor its outstanding customer receivables.

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The ECL calculation is based on provision rates which represent the historical loss experience based on modes of payment, adjusted for the current conditions and forecasts of future economic conditions. Based on the reasonable and supportable information that is available as of the reporting date, the Company considers gross domestic product rates and stock market capitalization as relevant forward-looking inputs in developing the economic overlays in the ECL calculation.

The table below shows the information about the Company's credit risk exposures on trade receivables using a provision matrix as of December 31, 2018:

	Under auto-debit arrangement	**Others***	**Total**
Receivables			
Expected credit loss rate	–	50%	
Total gross carrying amount	₱56,069,225	₱6,643,904	₱58,087,817
Expected credit losses	–	3,312,114	3,312,114

**others include payments through cash, checks or wire transfers and long-outstanding receivables fully provided with allowance in prior years.*

The Company's other receivables amounting to ₱23,853,879 are largely composed of advances to suppliers, employees and member banks. These financial assets are considered low risk as these are fully-secured by the employees' salaries and member banks' deposits. The Company assessed that the 12-month ECL as of December 31, 2018 is not material.

Policy applicable prior to January 1, 2018
The tables below show the credit quality per class of financial assets, gross of allowance for credit and impairment losses, based on the Company's rating system:

	2017				
	Neither past due nor impaired		Past due but not impaired	Past due and impaired	
	High Grade	Standard Grade	Unrated		Total
Cash and cash equivalents*	₱82,018,661	₱–	₱–	₱–	₱82,018,661
Short-term investments	418,734,057	–	–	–	418,734,057
Receivables	46,853,477	7,415,169	4,311,189	3,312,114	61,891,949
HTM investments	310,787,172	–	–	–	310,787,172
AFS investments	33,509,076	–	–	–	33,509,076
Other current assets** (Note 9)	2,941,187	–	–	–	2,941,187
	894,843,630	7,415,169	4,311,189	3,312,114	909,882,102
Less allowance for credit losses	–	–	–	3,312,114	3,312,114
	₱894,843,630	₱7,415,169	₱4,311,189	₱–	₱906,569,988

**Excludes cash on hand*
***Includes cash for specific settlement and others*

Aging analysis of past due but not impaired receivables
The table below shows the aging analysis of past due but not impaired receivables per class of the Company:

	Less than 30 days	31 to 60 days	61 to 90 days	91 to 120 days	More than 121 days	Total
Accounts receivable						
2017	₱754,843	₱732,215	₱2,286,524	₱323,874	₱213,733	₱4,311,189

Concentration of risks of financial assets with credit risk exposure
An analysis of concentration of credit risk at reporting date is shown below:

	2018						
	Cash and cash equivalents*	**Short-term investments**	**Receivables**	**Financial assets at FVTPL**	**Investment securities at amortized cost**	**Other current assets****	**Total**
Banks and other financial intermediaries	₱160,972,407	₱314,416,620	₱56,000,287	₱33,401,713	₱45,353,056	₱2,629,000	₱612,773,083
Government	–	–	2,179,929	–	137,933,833	–	140,113,762
Real estate	–	–	361,630	–	100,925,125	–	101,286,755
Power	–	–	1,502,506	–	43,000,000	–	44,502,506
Personal consumption	–	–	5,975,396	–	–	–	5,975,396
Others	–	–	20,441,142	–	–	340,594	20,781,736
	160,972,407	314,416,620	86,460,890	33,401,713	327,212,014	2,969,594	925,433,238
Less allowance for credit losses	–	–	3,312,114	–	1,217,403	–	4,529,517
	₱160,972,407	₱314,416,620	₱83,148,776	₱33,401,713	₱325,994,611	₱2,969,594	₱920,903,721

**Excludes cash on hand*
***Includes cash for specific settlement and others*

	2017						
	Cash and cash equivalents*	Short-term investments	Receivables	AFS investments	HTM investments	Other current assets**	Total
Banks and other financial intermediaries	₱82,018,661	₱418,734,057	₱49,027,664	₱33,509,076	₱55,915,954	₱2,496,500	₱641,701,912
Government	–	–	2,247,179	–	110,579,990	–	112,827,169
Real estate	–	–	367,514	–	101,291,228	–	101,658,742
Power	–	–	1,284,414	–	43,000,000	–	44,284,414
Personal consumption	–	–	6,440,582	–	–	–	6,440,582
Others	–	–	2,524,596	–	–	444,687	2,969,283
	82,018,661	418,734,057	61,891,949	33,509,076	310,787,172	2,941,187	909,882,102
Less allowance for credit losses	–	–	3,312,114	–	–	–	3,312,114
	₱82,018,661	₱418,734,057	₱58,579,835	₱33,509,076	₱310,787,172	₱2,941,187	₱906,569,988

**Excludes cash on hand*
*** Includes cash for specific settlement and others*

Market Risk
Market risk is the risk of loss of future earnings to fair values or to future cash flows that may result from changes in the price of a financial instrument. It arises from open positions in interest rates, foreign currency exchange rates, and commodity and equity prices, all of which are exposed to general and specific market movements. The Company follows a conservative approach in investing its funds in fixed income securities both for long-term and short-term investments.

Majority of the investments in government and corporate debt securities receive fixed semi-annual or quarterly coupon payments.

Interest rate risk
Interest rate risk arises from fluctuations in market interest rates. This is not a significant risk since the Company has no floating interest rate financial instruments.

Foreign currency risk
Foreign currency risk is the risk of exchange rate fluctuations that may result in the receipt of reduced interest and a loss of principal when converted to the investor's local currency. Exchange controls imposed by the relevant authorities may also adversely affect the exchange rate and result in the receipt of reduced interest or principal.

The Company's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

As of December 31, 2018 and 2017, the carrying amounts of the Company's foreign currency-denominated financial instruments are as follows:

	2018	2017
Cash in banks	US$238,045	US$69,471
Short-term cash placements	435,999	786,339
Foreign currency exposure	US$674,044	US$855,810
Equivalent in Philippine peso	₱35,441,234	₱42,730,593

The following table sets forth the impact of the range of a reasonably possible change of ±5% in the US$: exchange rate on the Company's pre-tax income:

	December 31, 2018		December 31, 2017	
Percentage change in exchange rate	-5%	+5%	-5%	+5%
Change on pre-tax income	(₱1,772,062)	₱1,772,062	(₱2,136,530)	₱2,136,530

The Company believes that its profile of foreign currency exposures on its assets and liabilities is within conservative limits for the type of business in which the Company is engaged in.

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

Analysis of financial assets and financial liabilities by remaining contractual maturities
The tables below summarize the maturity profile of the Company's financial assets and financial liabilities on contractual undiscounted repayment obligations.

2018	On demand	Less than 3 months	3-12 months	Over 1 year	Total
Financial Assets					
Cash and cash equivalents*	₱43,677,740	₱118,192,372	₱–	₱–	₱161,870,112
Short-term investments*	–	139,949,809	180,155,821	–	320,105,630
Receivables					
Accounts receivable	–	58,087,817	–	–	58,087,817
Accrued interest receivable	–	4,519,194	–	–	4,519,194
Other receivables	–	23,853,879	–	–	23,853,879
Financial assets at FVTPL	–	33,401,713	–	–	33,401,713
Investment securities at amortized cost*	–	3,854,694	85,462,415	284,267,290	373,584,399
Other current assets	2,969,594	–	–	–	2,969,594
	₱46,647,334	₱381,859,478	₱265,618,236	₱284,267,290	₱978,392,338
Financial Liabilities					
Deposits from alliance members	–	–	–	32,837,500	32,837,500
Other current liabilities					
Accounts payable	–	123,284,030	–	–	123,284,030
Accrued expenses	–	7,497,809	–	–	7,497,809
Due to member banks	–	15,706,441	–	–	15,706,441
Other liabilities	–	–	–	8,913,041	8,913,041
	₱–	₱146,488,280	₱–	₱41,750,541	₱188,238,821

**Includes future interest*

2017	On demand	Less than 3 months	3-12 months	Over 1 year	Total
Financial Assets					
Cash and cash equivalents*	₱55,000,039	₱27,281,720	₱–	₱–	₱82,281,759
Short-term investments*	–	256,093,864	165,891,997	–	421,985,861
Receivables					
Accounts receivable	–	48,268,945	–	–	48,268,945
Accrued interest receivable	–	3,472,054	–	–	3,472,054
Other receivables	–	6,838,836	–	–	6,838,836
AFS investments	–	–	–	33,509,076	33,509,076
HTM investments*	–	2,406,696	10,937,921	357,213,515	370,558,132
Other current assets	2,941,187	–	–	–	2,941,187
	₱57,941,226	₱344,362,115	₱176,829,918	₱390,722,591	₱969,855,850
Financial Liabilities					
Deposits from alliance members	–	–	–	23,500,000	23,500,000
Other current liabilities					
Accounts payable	–	104,479,883	–	–	104,479,883
Accrued expenses	–	19,967,222	–	–	19,967,222
Due to member banks	–	12,819,261	–	–	12,819,261
Other liabilities	–	–	–	8,008,827	8,008,827
	₱–	₱137,266,366	₱–	₱31,508,827	₱168,775,193

**Includes future interest*

Operational Risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

5. Fair Value Measurement

The methods used by the Company in estimating the fair value of the financial instruments are:

Cash and cash equivalents and short-term investments - The carrying amount approximates their fair value due to the short-term nature of these financial instruments.

Receivables - For accounts receivable, accrued interest receivable and other receivables, carrying amounts approximate fair values considering that these are all short term.

Financial liabilities - The carrying amount of financial liabilities approximates their fair values due to either the demand feature or the relatively short-term maturities of these liabilities. Deposits from alliance members have no maturity but are demandable when membership is terminated.

Financial assets at FVTPL / AFS investments - Fair value of investments in mutual funds are determined based on published net asset value per share (NAVPS). NAVPS is computed as total assets of the fund less total liabilities over the total shares outstanding as of the end of the reporting period. The funds are primarily invested in quoted securities in various industries and quoted government securities (Note 11).

Investment securities at amortized cost / Held-to-maturity investments - The fair values are generally based on quoted market prices.

The table below shows the Company's financial assets and their fair value hierarchy as of December 31, 2018 and 2017:

2018	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
Asset measured at fair value:					
Financial assets at FVTPL	₱33,401,713	₱–	33,401,713	₱–	₱33,401,713
Asset for which fair value is disclosed:					
Investment securities at AC					
Quoted debt securities	325,994,611	278,780,476	26,333,252	–	305,113,728

2017	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
Asset measured at fair value:					
AFS investments	₱33,509,076	₱–	₱33,509,076	₱–	₱33,509,076
Asset for which fair value is disclosed:					
HTM investments					
Quoted debt securities	310,787,172	277,041,844	27,952,339	–	304,994,183

In 2018 and 2017, there was no transfer between level 1 and level 2 fair value measurements and no transfers into and out of level 3 fair value measurements.

6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	₱30,000	203,214
Cash in banks (Note 23)	43,647,740	₱54,796,825
Short-term cash placements (Note 23)	117,324,667	27,221,836
	₱161,002,407	₱82,221,875

Cash in banks earns interest ranging from 0.25% to 0.89% and from 0.25% to 1.00% in 2018 and 2017, respectively.

Short-term cash placements are made for varying periods of up to three months depending on the immediate cash requirements of the Company.

Peso-denominated short-term cash placements earned interest ranging from 2.00% to 7.00% and from 1.00% to 3.00% in 2018 and 2017, respectively.

Interest income earned on cash and cash equivalents amounted to ₱1,307,278 and ₱892,266 in 2018 and 2017, respectively.

7. Short-term Investments

The carrying amount of short-term investments amounted to ₱314,416,620 and ₱418,734,057 as of December 31, 2018 and 2017, respectively (Note 23).

Peso-denominated short-term investments earned interest ranging from 1.50% to 6.88% and from 1.00% to 2.43% in 2018 and 2017, respectively. US Dollar-denominated short-term investments earned interest ranging from 1.38% to 2.30% and from 1.25% to 1.65% in 2018 and 2017, respectively.

Interest income earned from short-term investments amounted to ₱11,806,059 and ₱10,564,488 in 2018 and 2017, respectively.

8. Receivables

This account consists of:

	2018	2017
Trade receivables (Note 23)	₱58,087,817	₱51,581,059
Accrued interest receivable (Note 23)	4,519,194	3,472,054
Other receivables (Note 23)	23,853,879	6,838,836
	86,460,890	61,891,949
Less allowance for credit losses (Note 15)	3,312,114	3,312,114
	₱83,148,776	₱58,579,835

Other receivables primarily represent advances to suppliers, employees and member banks with interest ranging from 6% to 12% in 2018 and 2017.

9. Other Current Assets

This account consists of:

	2018	2017
Prepaid expenses	₱15,294,316	₱7,085,111
Deferred input value-added tax (VAT)	10,904,190	6,686,509
Cash for specific settlement (Note 16)	2,629,000	2,496,500
Creditable withholding taxes	495,329	402,206
Others	340,594	444,687
	₱29,663,429	₱17,115,013

'Cash for specific settlement' pertains to the bank account maintained by the Company coming from advances made by an international credit card company (Note 16).

10. Investment Securities at Amortized Cost / Held-to-Maturity Investments

This account consists of:

	2018	2017
Current:		
Peso corporate bonds	₱45,353,056	₱–
Fixed rate treasury notes	30,133,833	–
	75,486,889	–
Non-current:		
Peso corporate bonds	143,925,125	190,207,182
Fixed rate treasury notes	77,800,000	90,579,990
Retail treasury bonds	30,000,000	30,000,000
	251,725,125	310,787,172
Less allowance for credit losses (Note 15)	1,217,403	–
	₱325,994,611	₱310,787,172

These investments earned annual interest ranging from 3.25% to 6.25% in 2018 and 2017, respectively. Interest income earned on these investments amounted to ₱14,008,355 and ₱10,681,693 in 2018 and 2017, respectively.

11. Financial Assets at Fair Value Through Profit or Loss / Available-for-Sale Investments

This account pertains to the investment in First Metro Fixed Income Mutual Fund. The Company paid ₱32,695,543 for the equivalent number of shares of 15,121,424. The fair value of this investment is determined based on the net asset value per share.

On January 1, 2018, the Company reclassified this investment from AFS investments to financial assets at FVTPL upon adoption of PFRS 9 (Note 2). The carrying amount of this investment amounted to ₱33,401,713 and ₱33,509,076 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the fund mainly consists of investments in the following:

	2018	2017
Corporate bonds and commercial papers	36.93%	24.24%
Fixed treasury notes	28.75%	31.63%
Time deposits	24.78%	28.04%
Loans and discounts	9.54%	16.09%
	100.00%	100.00%

As of December 31, 2018, unrealized mark-to-market losses on this investment amounting to ₱107,363 is recognized as 'Trading losses on financial assets at FVTPL' under 'Miscellaneous income' in the statement of income (Note 20).

For the year ended December 31, 2017, the movements in unrealized gain on AFS investments included in 'Accumulated other comprehensive losses' are as follows:

	2017
Balance at the beginning of the year	₱657,782
Changes in fair value taken to equity	155,752
	₱813,534

12. Property and Equipment

The composition of and movements in this account are as follows:

2018	Building and Building Improvements	Computer and Other Office Equipment	Transportation Equipment	Furniture and Fixtures	Total
Cost					
Balances at beginning of year	₱106,301,029	₱148,030,403	₱22,436,436	₱15,492,126	₱292,259,994
Additions	979,287	56,366,824	5,564,286	1,540,586	64,450,983
Disposals	–	–	(5,175,000)	(321,429)	(5,496,429)
Balances at end of year	107,280,316	204,397,227	22,825,722	16,711,283	351,214,548
Accumulated depreciation					
Balances at beginning of year	48,424,236	119,446,430	9,201,130	13,583,628	190,655,424
Depreciation	3,663,886	23,264,097	4,924,926	1,193,287	33,046,196
Disposals	–	–	(5,018,595)	(321,429)	(5,340,024)
Balances at end of year	52,088,122	142,710,527	9,107,461	14,455,486	218,361,596
Net book values at end of year	₱55,192,194	₱61,686,700	₱13,718,261	₱2,255,797	₱132,852,952

2017	Building and Building Improvements	Computer and Other Office Equipment	Transportation Equipment	Furniture and Fixtures	Total
Cost					
Balances at beginning of year	₱103,703,428	₱126,351,676	₱22,245,900	₱14,070,520	₱266,371,524
Additions	2,597,601	22,223,502	7,492,857	1,421,606	33,735,566
Disposals	–	(544,775)	(7,302,321)	–	(7,847,096)
Balances at end of year	106,301,029	148,030,403	22,436,436	15,492,126	292,259,994
Accumulated depreciation					
Balances at beginning of year	44,932,229	106,005,449	12,142,576	12,387,358	175,467,612
(Forward)					
Depreciation	3,492,007	13,985,756	4,081,229	1,196,270	22,755,262
Disposals	₱–	(₱544,775)	(₱7,022,675)	₱–	(₱7,567,450)
Balances at end of year	48,424,236	119,446,430	9,201,130	13,583,628	190,655,424
Net book values at end of year	₱57,876,793	₱28,583,973	₱13,235,306	₱1,908,498	₱101,604,570

As of December 31, 2018 and 2017, the cost of fully depreciated property and equipment still in use amounted to ₱150,187,486 and ₱129,544,677, respectively.

13. Intangible Assets

The composition of and movements in this account are as follows:

2018	Customer Relationship Asset	Software Costs	Total
Cost			
Balances at beginning of year	₱89,998,067	₱252,897,879	₱342,895,946
Additions	–	58,523,897	58,523,897
Balances at end of year	89,998,067	311,421,776	401,419,843
Accumulated amortization			
Balances at beginning of year	38,999,162	181,040,758	220,039,920
Amortization	17,999,613	32,368,552	50,368,165
Balances at end of year	56,998,775	213,409,310	270,408,085
Net book values at end of year	₱32,999,292	₱98,012,466	₱131,011,758

2017	Customer Relationship Asset	Software Costs	Total
Cost			
Balances at beginning of year	₱89,998,067	₱206,926,562	₱296,924,629
Additions	–	45,971,317	45,971,317
Balances at end of year	89,998,067	252,897,879	342,895,946
Accumulated amortization			
Balances at beginning of year	20,999,549	171,650,732	192,650,281
Amortization	17,999,613	9,390,026	27,389,639
Balances at end of year	38,999,162	181,040,758	220,039,920
Net book values at end of year	₱50,998,905	₱71,857,121	₱122,856,026

As of December 31, 2018 and 2017, the cost of fully amortized intangible assets still in use amounted to ₱176,101,810.

Customer relationship asset represents payments made by the Company related to the operational integration of the ATM switch operations of the Company and MegaLink, Inc. (ML). Operational integration refers to the undertaking where the Company took over the ATM switch operations of ML to implement the Agreement signed by the shareholders of the Company and ML in consolidating their ATM switch operations. These payments are considered as direct costs of acquiring the business relationships of ML, and are recognized as an intangible asset.

14. Other Noncurrent Assets

This account consists of:

	2018	2017
Deferred input VAT	₱8,327,143	₱8,143,161
Prepaid expenses	3,828,028	963,735
Miscellaneous	831,013	780,853
	12,986,184	9,887,749
Less allowance for impairment losses (Note 15)	127,000	127,000
	₱12,859,184	₱9,760,749

Deferred input VAT pertains to input taxes on purchases of various property and equipment with acquisition costs exceeding ₱1,000,000 for each particular month and on purchases of services which are not yet paid as of year-end. The input taxes on purchases of various property and equipment are deferred and claimed by the Company as credit against output tax over the estimated useful lives of the purchased property and equipment or 60 months, whichever is shorter.

15. Allowance for Credit and Impairment Losses

Movements in this account are as follows:

	2018	2017
Balances at beginning of year, as previously reported		
Receivables (Note 8)	₱3,312,114	₱2,216,332
Miscellaneous assets (Note 14)	127,000	127,000
	3,439,114	2,343,332
Transition adjustment from the adoption of PFRS 9 (Note 2)	1,217,403	–
Balances at beginning of year, as restated		
Receivables	3,312,114	2,216,332
Investment securities at amortized cost	1,217,403	–
Miscellaneous assets	127,000	127,000
	4,656,517	2,343,332
Provision for credit losses during the year		
Receivables (Note 21)	–	1,095,782
Balances at end of year		
Receivables (Note 8)	3,312,114	3,312,114
Investment securities at amortized cost (Note 10)	1,217,403	–
Miscellaneous assets (Note 14)	127,000	127,000
	₱4,656,517	₱3,439,114

16. Accounts Payable and Accrued Expenses

This account consists of:

	2018	2017
Accounts payable (Note 23)	₱123,284,030	₱104,479,883
Due to member banks (Note 23)	15,706,441	12,819,261
Accrued expenses	7,497,809	16,414,234
Withholding taxes payable	3,796,964	4,539,520
Current portion of accrued leaves (Note 19)	3,376,626	3,552,988
VAT payable	2,768,794	5,225,375
Others	2,629,000	2,496,500
	₱159,059,664	₱149,527,761

Others pertain to advances received from an international credit card company to guarantee settlement of funds and certain provisions. The related fund is presented as 'Cash for specific settlement' under other current assets (Note 9).

17. Equity

The composition of capital stock as of December 31, 2018 and 2017 are as follows:

	Shares	Amount
Capital stock - 100 par value		
Authorized shares	3,000,000	₱300,000,000
Issued and outstanding	1,893,000	189,300,000

Appropriated Retained Earnings

On October 18, 2018, the BOD approved the appropriation for projects that are already underway with some amendments on the appropriated amounts, and made additional appropriation amounting to ₱60,000,000 based on new projects with 1 to 3 years timetable.

Details of the appropriated retained earnings as of December 31, 2018 follow:

Project	Estimated Cost	Timeline
Settlement risk cover	₱400,000,000	–
Real-time payment system project (RTP)	100,000,000	2019 - 2021
Settlement risk management system	60,000,000	2019 - 2020
Switch upgrade	50,000,000	2019
	₱610,000,000	

Settlement risk cover refers to the cash deposits being required by the Company's settlement bank for future settlement risk.

RTP project refers to the Real-time Payment System for retail transactions that the Company operates as the designated National Clearing Switch Operator (CSO) for the InstaPay Automated Clearing House (ACH). Currently, the Company provides an in-house developed system to the Instapay ACH participants. In October 2018, the Company's BOD approved the signing of an agreement with Mastercard Asia/Pacific Pte. Ltd. (Mastercard) for the Vocalink Real-Time Payment Solution (RTPS) infrastructure under a Managed Service Arrangement. This arrangement intends to implement the Vocalink RTP solution that will replace the current in-house developed system and at the same time provide InstaPay participants with improved services and better data capabilities such as multi-proxy system, other value added services and AML insights. This partnership with Mastercard will enable the Company to leapfrog several generations of payments technology and bring the country into the forefront of state-of-the-art innovations in account-based real-time payments.

Settlement risk management system refers to a robust and reliable network-wide Settlement Monitoring System that will support bilateral and multi-lateral credit line arrangements among the participants, which the Company should develop as embodied in the Agreement signed by the shareholders of the Company and ML in consolidating their ATM switch operations into the Company. The system will be anchored on the settlement risk management framework that was approved by the BOD of the Company during its meeting in September 2015.

Switch upgrade refers to the upgrade of the Company's current IST Switch version from 7.6.1 to the latest service pack version of IST 7.7. The upgrade will allow the Company to benefit from the new features and functionalities of IST Switch such as PA-DSS compliance, Web Service or Card-less Transaction Support, ISO20022 Messaging, High Availability and Active-Active Configuration. These new functions improve IST's integration support for new technology and non-traditional channels and innovative services.

Dividends
On April 12, 2018, the BOD declared cash dividends of ₱20 per share totaling ₱37,860,000 based on the number of shares outstanding, payable on or before May 31, 2018 to stockholders of record as of April 12, 2018.

On April 6, 2017, the BOD declared cash dividends of 60 per share totaling ₱113,580,000 based on the number of shares outstanding, payable on or before May 31, 2017 to stockholders of record as of April 6, 2017.

Other Comprehensive Losses
Other comprehensive losses include remeasurement losses on retirement obligation and revaluation on AFS investments. As of December 31, 2018 and 2017, remeasurement losses on retirement obligation amounted to ₱12,694,838 and ₱21,814,051, respectively (Note 19), while the revaluation gain on AFS investments amounted to ₱813,534 as of December 31, 2017 (Note 11).

Capital Management
The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder's value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes from the previous years.

The Company considers its equity as its capital. It is not subject to any externally-imposed capital requirements.

18. Transaction Fees

The following table shows the disaggregation by source of transaction fees, which are all recognized point-in-time:

	2018	2017
Local ATM withdrawal fees	₱114,960,077	₱115,593,551
Cross border withdrawal fees	89,845,262	81,220,168
Switch outsourcing fees	59,671,111	62,337,570
Point-of-sale routing fees	52,563,966	49,140,038
Balance inquiry fees	44,771,144	46,003,421
Others	30,763,257	23,863,800
	₱392,574,817	₱378,158,548

Others include fees from transactions related to internet payment gateway, bills payment, interbank fund transfers and e-Government payments.

19. Retirement Plan and Other Employee Benefits

The Company has a separate funded noncontributory defined benefit retirement plan covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

In 2017, the Company enhanced the retirement plan for employees increasing the employees' entitlement on the retirement benefit, which is expressed as a percentage of the plan salary for every year of credited service, upon reaching a certain number of years in service.

The latest actuarial valuation report of the retirement plan was made as of December 31, 2018.

The principal actuarial assumptions used in determining retirement asset as of the beginning of the year follow:

	2018	2017
Discount rate		
At January 1	5.74%	5.25%
At December 31	7.32%	5.74%
Future salary increases	8.00%	7.00%

Net retirement asset recognized in the statement of financial position follows:

	2018	2017
Fair value of plan assets	₱116,610,106	₱119,325,396
Present value of obligation	91,989,344	101,386,347
Net retirement asset	₱24,620,762	₱17,939,049

Movements in the net retirement asset follow:

	2018	2017
Balance at beginning of year	₱17,939,049	₱6,886,144
Retirement expense	(6,345,735)	(33,871,121)
Amount recognized in OCI	13,027,448	(17,347,436)
Actual contributions	–	62,271,462
Balance at end of year	₱24,620,762	₱17,939,049

Movements in the present value of the defined benefit obligation follow:

	2018	2017
Balance at beginning of year	₱101,386,347	₱64,617,300
Current service cost	7,375,437	5,514,608
Past service cost	–	28,718,036
Interest cost	4,802,139	2,993,112
Benefits paid	(1,965,600)	(15,722,692)
Actuarial losses (gains):		
Experience adjustments	(17,345,404)	20,233,495
Changes in financial assumptions	(3,704,262)	(3,443,185)
Changes in demographic assumptions	1,440,687	(1,524,327)
Balance at end of year	₱91,989,344	₱101,386,347

Movements in the fair value of plan assets follow:

	2018	2017
Balance at beginning of year	₱119,325,396	₱71,503,444
Interest income included in net interest cost	5,831,841	3,354,635
Actual return excluding amount included in net interest cost	(6,581,531)	(2,081,453)
Actual contributions	–	62,271,462
Benefits paid	(1,965,600)	(15,722,692)
Balance at end of year	₱116,610,106	₱119,325,396

The cumulative amount of remeasurement losses recognized in 'Accumulated other comprehensive losses' follows:

	2018	2017
Beginning balance	₱21,814,051	₱9,670,846
Remeasurement losses (gains):		
Defined benefit obligation	(19,608,979)	15,265,983
Fair value of plan assets	6,581,531	2,081,453
	(13,027,448)	17,347,436
Tax effect	3,908,235	(5,204,231)
	(9,119,213)	12,143,205
Cumulative remeasurement losses, net of tax	₱12,694,838	₱21,814,051

The Company expects to contribute ₱7,752,490 to its defined benefit pension plan in 2019.

The distribution of plan assets of the Company's retirement plan as of December 31, 2018 and 2017, are as follows:

	2018	2017
Investments in quoted government securities	₱95,753,817	₱74,922,181
Cash and cash equivalents	19,957,142	43,752,060
Accrued interest receivable	1,064,976	833,165
Payables	(165,829)	(182,010)
Total plan assets	₱116,610,106	₱119,325,396

Details of retirement expense included in 'Salaries and employee benefits' in the statements of income follow:

	2018	2017
Current service cost	₱7,375,437	₱5,514,608
Past service cost	–	28,718,036
Net interest cost	(1,029,702)	(361,523)
	₱6,345,735	₱33,871,121

Management believes that as of reporting date, it is the discount rate and salary rate that could significantly affect the retirement obligation. The sensitivity analysis below has been determined based on reasonable possible changes in the discount rate and salary rate occurring at the end of the reporting period assuming all other assumptions were held constant in 2018:

Assumption	Increase (decrease)	Increase (decrease) in defined benefit obligation
Discount rate	-1.00%	₱6,629,167
	1.00%	(7,557,572)
Salary rate	1.00%	8,062,172
	-1.00%	(7,190,689)

As of December 31, 2018 and 2017, the Company does not have any transactions, either directly or indirectly, with the retirement benefit fund.

As of December 31, 2018 and 2017, there are no reimbursement rights recognized as a separate asset in the Company's statements of financial position.

The weighted average duration of defined benefit obligation is 17.25 years in 2018. Maturity analysis of the undiscounted benefit payments follow:

	Expected Benefit Payments		
Plan Year	Normal Retirement	Other than Normal Retirement	Total
Less than one year	₱14,657,232	₱2,690,499	₱17,347,731
One to less than five years	2,882,474	15,510,687	18,393,161
Five to less than 10 years	42,943,324	29,383,080	72,326,404
10 to less than 15 years	67,273,516	23,740,911	91,014,427
15 to less than 20 years	49,522,916	24,104,642	73,627,558
20 years and above	156,973,715	44,069,710	201,043,425

Other Employee Benefits
The Company compensates its employees with 15-day sick leave and 15-day vacation leave credits annually which can be accumulated in the succeeding years, subject to a certain limit of 60 days and 45 days, respectively. Accumulated sick and vacation leave credits exceeding 30 days and 15 days, respectively, are commutable to cash annually at the option of the employees. The maximum amount of sick and vacation leaves commutable is 15 days each annually.

The Company's accrued other employee benefits as of December 31, 2018 and 2017 are as follows:

	2018	2017
Current portion included in accounts payable and accrued expense (Note 16)	₱3,376,626	₱3,552,988
Noncurrent portion included in other liabilities	8,913,041	8,008,827
	₱12,289,667	₱11,561,815

20. Miscellaneous Income

This account consists of:

	2018	2017
Foreign exchange gains	₱2,137,587	₱155,146
Ancillary charges	1,788,036	1,679,464
Trading losses on financial assets at FVTPL (Note 11)	(107,363)	–
Others	6,184,668	2,126,660
	₱10,002,928	₱3,961,270

Ancillary charges to member banks are in connection with the ATM operations.

21. Miscellaneous Expenses

This account consists of:

	2018	2017
Donations and contributions	₱2,425,330	₱134,218
PhilPaSS charges	2,096,294	2,022,183
Association dues	1,779,548	1,779,548
Membership dues	1,709,328	139,766
Janitorial, messengerial and security services	1,643,109	1,800,224
Insurance	1,004,858	743,554
Entertainment, amusement and recreation	228,336	162,565
Repairs and maintenance	193,242	87,020
Provision for credit losses (Note 15)	–	1,095,782
Others	1,940,535	4,503,320
	₱13,020,580	₱12,468,180

Others include director's fees, interchange fees and bank charges.

22. Income and Other Taxes

Income taxes include corporate income taxes and final tax paid at the rate of 20.00% and 15.00% which represent the final withholding tax on gross interest income from peso and dollar deposits in banks and other deposit substitutes, respectively.

Provision for income tax consists of:

	2018	2017
Current:		
Regular	₱25,434,708	₱32,719,824
Final	5,399,986	4,336,643
	30,834,694	37,056,467
Deferred	346,918	(5,280,865)
	₱31,181,612	₱31,775,602

Provision for (benefit from) deferred income tax charged directly to OCI amounted to ₱3,908,235 and (₱5,204,231) in 2018 and 2017, respectively.

Under the regulation, Entertainment, Amusement, and Recreational (EAR) expenses allowed as deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses of the Company amounted to ₱228,336 and ₱162,565 in 2018 and 2017, respectively, included under 'Miscellaneous expenses' in the statements of income.

The components of 'Deferred tax assets - net' recognized in the statements of financial position are presented below:

	2018	2017
Deferred tax assets on:		
Unamortized past service cost	₱15,532,635	₱17,841,133
Accrued employee benefits and expenses	3,686,901	3,721,313
Allowance for credit and impairment losses	1,358,855	993,635
Deferred revenue	300,000	–
Unrealized foreign exchange loss	26,505	234,233
	20,904,896	22,790,314
Deferred tax liability on:		
Net retirement asset	(7,386,229)	(5,381,715)
	₱13,518,667	₱17,408,599

A reconciliation of the statutory income tax to the provision for income tax follows:

	2018	2017
Statutory income tax	₱33,918,134	₱33,606,395
Tax effect of tax-paid interest income	(2,736,522)	(2,304,891)
Non-deductible expenses	–	474,098
Provision for income tax	₱31,181,612	₱31,775,602

Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect on January 1, 2018. Although the TRAIN changed existing tax law and includes several provisions that generally affected businesses on a prospective basis, the management assessed that the same did not have any significant impact on the financial statement balances.

23. 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 subject to common control or common significant influence such as subsidiaries, associates of subsidiaries, affiliates or other related parties. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Company has transactions with its member banks considered as related parties. Under existing policies of the Company, these transactions are made substantially on the same terms and conditions as transactions with businesses of comparable risks. The Company settles transactions with related parties in cash.

Transactions and balances with respect to related parties included in the financial statements are as follows:

		2018		
Category	Account	Amount/ Volume	Outstanding Balances	Nature/Terms and Conditions
Member banks	Cash in banks	₱–	₱43,647,740	Subject to interest ranging from 0.25% to 0.89%
	Cash equivalents		117,324,667	Cash equivalents subject to interest ranging from 2.00% to 7.00% with varying periods up to three (3) months
	Deposits	302,287,781		
	Withdrawals	212,184,950		
	Short-term investments		314,416,620	Short-term placements subject to interest ranging from 1.50% to 6.88% with terms of more than three (3) months
	Deposits	1,064,067,461		
	Withdrawals	1,168,384,898		
	Accounts receivables		49,709,178	Transaction fees, collectible within one month after billing, non-interest bearing
	Billings	439,975,964		
	Collections	434,727,581		
	Accrued interest receivable	–	2,782,514	Subject to interest ranging from 2.00% to 7.00% and from 1.50% to 6.88% for cash equivalents and short-term cash placements, respectively
	Interest income	13,113,337	–	
	Accounts payable		76,840,705	Incentives, payable every quarter, non-interest bearing
	Incentives	126,355,063		
	Payments	103,944,925		
	Due to member banks		₱15,706,441	Remittance of share in commissions, payable within one month after billing, non-interest bearing
	Additions	₱107,097,279		
	Settlements	104,210,099		

NOTES TO
FINANCIAL STATEMENTS

Category	Account	2018 Amount/ Volume	2018 Outstanding Balances	Nature/Terms and Conditions
	Deposits from alliance members	**9,337,500**	**32,837,500**	Deposits received prior to implementation as issuer, payable on demand, noninterest bearing
Officers and employees	Other receivable	**–**	**5,975,396**	Loans and advances extended to officers and employees, collectible on demand, subject to interest ranging from 6.00% to 12.00%, not impaired
	Interest income	**424,912**	**–**	

Category	Account	2017 Amount/ Volume	2017 Outstanding Balances	Nature/Terms and Conditions
Member banks	Cash in banks	₱–	₱54,796,825	Subject to interest ranging from 0.25% to 1.00%
	Cash equivalents		27,221,836	Cash equivalents subject to interest ranging from 1.00% to 3.00% with varying periods up to three (3) months
	Deposits	389,661,017		
	Withdrawals	387,983,285		
	Short-term investments		418,734,057	Short-term investments subject to interest ranging from 1.00% to 2.43% with terms of more than three (3) months
	Deposits	1,342,358,217		
	Withdrawals	1,472,938,702		
	Accounts receivables		44,460,795	Transaction fees, collectable within one month after billing, non-interest bearing, not impaired
	Billings	378,158,548		
	Collections	369,942,369		
	Accrued interest receivable	–	1,979,699	Subject to interest ranging from 1.00% to 3.00% and from 1.00% to 2.43% for cash equivalents and short-term cash placements, respectively
	Interest income	11,456,754	–	
	Accounts payable		54,430,567	Incentives, payable every quarter, non-interest bearing
	Incentives	174,382,273		
	Payments	150,223,827		
	Due to member banks		12,819,261	Remittance of share in commissions and fees, payable within one month after billing, non-interest bearing
	Additions	99,166,566		
	Settlements	96,660,827		
	Deposits from alliance members	(2,000,000)	23,500,000	Deposits received prior to implementation as issuer, refundable upon termination of membership, non-interest bearing
Officers and employees	Other receivable	–	6,440,582	Loans and advances extended to officers and employees, collectible on demand, subject to interest ranging from 6.00% to 12.00%, not impaired
	Interest income	281,899	–	

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

Compensation of key management personnel is summarized below:

	2018	2017
Salaries and other short-term employee benefits	**₱24,474,636**	₱23,022,902
Post-employment benefits	**2,004,506**	2,387,228
	₱26,479,142	₱25,410,130

24. Earnings Per Share and Book Value Per Common Share

Basic and diluted earnings per share were computed as follows:

	2018	2017
a. Net income	**₱81,878,835**	₱80,245,715
b. Weighted average number of outstanding ordinary shares	**1,893,000**	1,893,000
c. Basic EPS (a/b)	**₱43.25**	₱42.39

The Company does not have dilutive potential common shares as of December 31, 2018 and 2017.

Book value per common share (BVPS) was computed as follows:

	2018	2017
a. Equity at end of year	**₱1,061,675,188**	₱1,009,389,322
b. Common shares outstanding at end of year	**1,893,000**	1,893,000
c. BVPS (a/b)	**₱560.84**	₱533.22

25. Notes to Statements of Cash Flows

Additions to property and equipment still unpaid as of December 31, 2018 and 2017 amounted to ₱10,539,190 and ₱11,906,096, respectively.

Additions to intangible assets still unpaid as of December 31, 2018 and 2017 amounted to ₱17,009,814 and ₱11,751,814, respectively.

Change in liabilities arising from financing activities represents net movement in the deposits from alliance members, as reflected in the statements of cash flows.

26. Event After the Reporting Period

On April 11, 2019, the BOD declared cash dividends of ₱20 per share totaling ₱37,860,000 based on the number of shares outstanding, payable on or before May 31, 2019 to stockholders of record as of April 11, 2019.

27. Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

Supplementary Information Under RR No. 15-2010
On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The Regulations provide that the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Company reported and/or paid the following types of taxes in 2018:

Value-added Tax (VAT)

The Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.00%.

Net Sales/Receipts and Output VAT declared in the Company's VAT returns for 2018

	Net Sales/Receipts	Output VAT
Taxable sales:		
Sales of services	₱420,143,964	₱50,417,276
Sales to government	5,253,641	630,437

a. Input VAT for 2018

Balance at January 1	
Input tax deferred on purchases of capital goods	₱12,678,818
Current year's domestic purchases/payments for:	
Services lodged under other accounts	16,934,729
Capital goods subject to amortization	7,774,889
Capital goods subject not subject to amortization	45,607
Goods other than for resale or manufacture	235,259
	24,990,484
Less: Claims for tax credit/refund and other adjustments	
Output tax credited against input tax	22,967,616
Input tax on purchases of capital goods exceeding ₱1.00 million deferred for the succeeding period	14,701,686
Balance at December 31	₱–

Other taxes and licenses
Taxes and licenses, local and national, include real estate taxes, licenses and permit fees:

Taxes and licenses	
License and permits fees	₱2,974,394
Real estate taxes	803,568
	₱3,777,962

Withholding taxes
Details of total remittances and withholding taxes payable as of December 31, 2018 are as follows:

	Total remittances	Balance
Withholding taxes on compensation and benefits	₱17,028,799	₱1,547,358
Expanded withholding taxes	4,213,794	1,518,725
Final withholding taxes	3,144,033	379,675
VAT withheld	2,415,555	351,206
	₱26,802,181	₱3,796,964

Total remittances pertain to tax payments made for the reporting period covering January 2018 to November 2018. The outstanding withholding tax payable as of December 31, 2018 represents the withholding taxes for the month of December 2018 which were remitted in January 2019.

Tax assessments and cases
As of December 31, 2018, the Company has not received any final assessment notices from the BIR and it has no tax cases, litigation and/or prosecution in court or bodies outside BIR.

MEMBERS AND AFFILIATES*

BancNet
Non-Stop Payment Network

EQUITY MEMBERS

AUB
Joy Nostalg Center, 17 ADB Ave.
Ortigas Center, Pasig City
638-6888

BANK OF COMMERCE
21/F SMPC Bldg., Saint Francis St.
Mandaluyong City
982-6000

BPI
Tower One, Ayala North Exchange
6796 Ayala Ave. corner Salcedo St.
Legaspi Village, Makati City
818-5541 to 48

BDO
7899 Makati Ave. Makati City
840-7000

CHINA BANK
8745 Paseo de Roxas
corner Villar St., Makati City
885-5888

CTBC BANK
16-17/F Fort Legend Towers
3rd Ave. corner 31st St.
Bonifacio Global City, Taguig City
988-9287

CITIBANK
Citibank Plaza, 34th St. corner Lane S
Bonifacio Global City, Taguig City
894-7700

DBP
Sen. Gil Puyat Ave. corner Makati Ave.
Makati City
818-9511

EASTWEST BANK
The Beaufort
5th Ave. corner 23rd St.
Bonifacio Global City, Taguig City
575-3888

EQUICOM SAVINGS
6/F ODC International Plaza
219 Salcedo St., Legaspi Village
Makati City
828-3784

HSBC
HSBC Center, 3058 5th Ave.
Bonifacio Global City, Taguig City
976-7878

LANDBANK
Landbank Plaza
1598 MH del Pilar St.
Malate, Manila
522-0000

METROBANK
Metrobank Plaza
Sen. Gil Puyat Ave., Makati City
898-8000

PBCOM
PBCOM Tower, 6795 Ayala Ave.
corner V.A. Rufino St. Makati City
830-7000

PNB
PNB Financial Center
Pres. Diosdado Macapagal Blvd.
Pasay City
526-3131 to 70

PHILTRUST
1000 San Marcelino St.
United Nations Ave., Manila
524-9061

RCBC
Yuchengco Tower, RCBC Plaza
6819 Ayala Ave., Makati City
894-9000

ROBINSONS BANK
17/F Galleria Corporate Center Bldg.
EDSA corner Ortigas Ave.
Quezon City
702-9500

SECURITY BANK
6776 Ayala Ave., Makati City
867-6788

STANDARD CHARTERED BANK
6788 Ayala Ave., Makati City
886-7888

STERLING BANK
Sterling Bank
Corporate Center Bldg.
Ortigas Ave., Greenhills, San Juan
535-6168

UNIONBANK
Union Bank Plaza, Meralco Ave.
Ortigas Center, Pasig City
667-6388

UCPB
UCPB Corporate Offices
7907 Makati Ave., Makati City
811-9000

VETERANS BANK
101 V. A. Rufino St.
Legaspi Village, Makati City
857-3800

OTHER MEMBERS

AGDAO MULTIPURPOSE COOPERATIVE
AMPC Green Bldg.
N. Torres St., corner Urduja St.
Gov. Paciano Bangoy, Davao City
(082) 300-4355

ALLBANK
Polar Center EDSA
EDSA corner Cornell St.
Bgy. Wack Wack, Mandaluyong
571-9131 to 32

AMA BANK
311 Shaw Blvd.
Mandaluyong City
533-8244

ANTRECCO
ANTRECCO Bldg.
J.P. Rosales Ave., Butuan City
(085) 342-7441

AURORA INTEGRATED MULTIPURPOSE COOPERATIVE
Burgos St., Poblacion Aurora
Zamboanga del Sur
90620 331-2018

BANGKO MABUHAY
A. Soriano St.
Tanza, Cavite
(046) 489-2001 to 04

BANK OF MAKATI
44 Sen. Gil Puyat Ave.
Brgy. San Isidro, Makati City
889-0000

BANKWAYS
Poblacion Pardo, Cebu City
(032) 272-7161

BARANGKA CREDIT COOPERATIVE
170 Gen. Julian Cruz St.
Marikina City
475-0044

BASEY 1 MULTI-PURPOSE COOPERATIVE
Basey 1 Central School
Basey, Samar
(055) 276-1025

BINANGONAN RURAL BANK
135 Baltazar St.
Barangay Layunan
Binangonan, Rizal
818-2284

BPI DIRECT BANKO
BanKo Center
220 Ortigas Ave.
North Greenhills, San Juan City
754-9980

BPI FAMILY SAVINGS BANK
BPI Family Savings Bank Center
Paseo de Roxas, Makati City
818-5541 to 48

CANTILAN BANK
Orozco St., Magosilom
Cantilan, Surigao del Sur
(086) 212-5056 to 60

CARD BANK
20 M.L. Quezon St., City Subd.
San Pablo City
(049) 562-4309

CARD SME BANK
M. Paulino corner Burgos St.
San Pablo City
(049) 503-2671

CHINA BANK SAVINGS
314 Sen. Gil Puyat Ave.
Makati City
884-7600

CIMB
28th Floor, Ore Central
31st St. corner 9th Avenue
Bonifacio Global City, Taguig City
790-0129

CITY SAVINGS BANK
Osmeña Blvd. corner P. Burgos St.
Cebu City
(032) 411-8500

CITYSTATE SAVINGS
709 Shaw Blvd.
Brgy. Oranbo, Pasig City
470-3333

COMMUNITY RURAL BANK OF DAPITAN
Andres Bonifacio Ave.
Dapitan City
(065) 213-6263

COOPERATIVE BANK OF BENGUET
JC 225 Central Pico
La Trinidad, Benguet
(074) 411-1849

COOPERATIVE BANK OF BOHOL
CPG East Ave., Tagbilaran City
(038) 411-3483

COOPERATIVE BANK OF NUEVA VIZCAYA
Coop Bank Bldg., Burgos St.
Quirino, Solano
Nueva Vizcaya
(078) 326-6133

COOPERATIVE BANK OF QUEZON PROVINCE
Granja St., Lucena City
(042) 373-6089; 660-5746

COUNTRY BUILDERS BANK
10 Gen Luna St.
Tuktukan, Taguig City
642-8074

CS FIRST BANK
G/F Royal Mall Complex
J.P. Rizal St., Poblacion Sur
Bayambang, Pangasinan
(075) 592-2537

DEUTSCHE BANK
26/F Tower I, Ayala Triangle
Paseo de Roxas, Makati City
894-6900

DUMAGUETE CATHEDRAL CREDIT COOPERATIVE
DCCCO Bldg., Sta. Rosa St.
Poblacion 2, Dumaguete City
(035) 422-4493

DUMAGUETE BANK
Dr. V. Locsin St. corner Cervantes St.
Dumaguete City
(035) 225-7375

DUNGGANON BANK
NWTF Bldg., 102 San Sebastian St.
Bacolod City
(034) 432-3720

EAST WEST RURAL BANK
J.P. Laurel St. corner Iñigo St.
Bajada, Davao City
(082) 238-7700

ENTERPRISE BANK
National Highway, Lianga
Surigao del Sur
(082) 300-4042

ENTREPRENEUR BANK
63 A. Mabini St.
San Pedro, Laguna
808-1296

GUBAT SAINT ANTHONY COOPERATIVE
Luna Candol St. corner Quezon St.
Gubat, Sorsogon
(056) 311-1763

HOLY CHILD MULTI-PURPOSE COOPERATIVE
620 T. Claudio St., Bato, Leyte
(053) 336-2273

HSBC SAVINGS BANK
Alabang Commercial Complex
Madrigal Ave., Alabang Village
Muntinlupa City
581-8491

ING BANK
20/F Tower One, Ayala Triangle
Ayala Ave., Makati City
479-8888

ISLA BANK
Glass Tower, 115 C. Palanca Jr. St.
Legaspi Village, Makati City
840-4020/840-3621

KATIPUNAN BANK
Quezon Ave. corner Aguilar St.
Miputak, Dipolog City
(065) 212-7647

KEB HANA BANK
21/F Zuellig Bldg.
Makati Ave., Makati City
848-1988

LEGAZPI SAVINGS BANK
Rizal St., Old Albay District
Legaspi City
(052) 481-1239

LUZON DEVELOPMENT BANK
Mezzanine Floor, Checkpoint Mall
Paciano Rizal, Calamba, Laguna
(049) 531-3700

MALAYAN SAVINGS BANK
2/F Majalco Bldg.
Trasierra St., Legaspi Village
Makati City
814-0884

MASS-SPECC
4/F MASS-SPECC Cooperative
Development Center
Tiano-Yakapin St.
Cagayan de Oro City
(6388) 856-2339

MAXBANK
54 Brgy. Sabang, Puerto Galera
Oriental Mindoro
(43) 287-3480

MAYBANK
7th Ave. corner 28th St.
Bonifacio Global City, Taguig City
588-3777

METRO ORMOC CREDIT COOPERATIVE
OCCCI Main Office Bldg.
Arradaza St., Ormoc City
(053) 561-0040

MINDANAO CONSOLIDATED COOPERATIVE BANK
MCCB Bldg.
Provincial Capitol Compound
Cagayan de Oro City
(088) 856-1550 / (08822) 726365

MUFG BANK
15/F 6788 Ayala Ave., Makati City
886-7371

NATCCO
227 J.P. Rizal St., Project 4
Quezon City
913-7011 to 16

NEWS MULTI-PURPOSE COOPERATIVE
P-6 Poblacion, San Jose
Surigao del Norte
(0920) 343-7914; (0920) 343-2411

ONE NETWORK BANK
ONB Center, Km. 9
Sasa, Davao City
(082) 233-7770

OPPORTUNITY KAUSWAGAN BANK
A & L Bldg., E. Lopez St.
Jaro, Iloilo City
(033) 320-4887

OVERSEAS FILIPINO BANK
Postal Bank Center
Liwasang Bonifacio, Manila
527-0053

PACIFIC ACE SAVINGS BANK
Times Square Lot 6
Subic Bay Freeport
Olongapo City
(047) 252-3392

PALOMPON COMMUNITY MULTI-PURPOSE COOPERATIVE
Poblacion Rizal St.
Palompon, Leyte
(053) 555-8755

PARTNER RURAL BANK OF COTABATO
J.P. Laurel St., Poblacion 2
Pigcawayan, North Cotabato
(064) 229-3356; 229-3232

PBCOM RURAL BANK
083 Rizal Ave., Dipolog City
(065) 212-5143

PERPETUAL HELP CREDIT COOPERATIVE
Redemptorist Compound
Real St., Tacloban City
(053) 523-0232

PHILIPPINE BUSINESS BANK
350 Rizal Ave. Ext. corner 9th Ave.
Grace Park, Caloocan City
363-3333

PLAN BANK
3/F Planbank Bldg., National Highway
Halang, Calamba, Laguna
(049) 545-1520

PNB SAVINGS BANK
11/F PNB Savings Center
Ayala Ave., Makati City
816-3311

PR SAVINGS BANK
Alingog Center
Rizal Ave. corner Canciller Ave.
Cauayan City
(078) 652-1308; 652-2964

PRODUCERS BANK
17/F AIC Burgundy Empire Tower
ADB Ave. corner Sapphire St.
Ortigas Center, Pasig City
570-4137

PS BANK
PSBank Center
777 Paseo de Roxas, Makati City
885-8208

QUEEN BANK
Sky City Tower
Mapa St., Iloilo City
(033) 336-8052 to 56/(033) 509-8055

QCRB
Quezon Ave., Lucena City
(042) 710-2045

RCBC SAVINGS BANK
RCBC Savings Bank Corporate Center
26th St., Bonifacio Global City
Taguig City
555-8700

RURAL BANK OF CENTRAL PANGASINAN
MacArthur Highway
San Miguel, Calasiao
Pangasinan
(075) 517-6403

RURAL BANK OF DULAG (LEYTE)
Kempis St., Brgy. Market Site
Dulag, Leyte
(053) 322-2028

RURAL BANK OF GATTARAN
Centro Norte
Gattaran, Cagayan
(078) 852-4069

RURAL BANK OF HINDANG (LEYTE)
1082 J.P. Rizal St.
Poblacion I, Hindang, Leyte
(053) 530-0429

RURAL BANK OF LUBAO
Sto. Tomas, Lubao, Pampanga
(045) 971-6224

RURAL BANK OF PARACALE
Candelaria St., Paracale
Camarines Norte
(054) 440-0782

RURAL BANK OF SAN MATEO
National Highway, Brgy. 3
San Mateo, Isabela
(078) 664-2121; 664-2027

RURAL BANK OF TANGUB
Lorenzo Tan St., Brgy. 1
Tangub City, Misamis Occidental
(032) 516-5977

SAVIOUR RURAL BANK
Olongapo Highway corner
Osmeña St., Sta. Cruz
Lubao, Pampanga
(045) 971-6215

STA. CRUZ SAVINGS AND DEVELOPMENT COOPERATIVE
Poblacion Este, Sta. Cruz
Ilocos Sur
(078) 742-3053

SUN SAVINGS
G/F Rosalie Bldg.
Gaisano Grand Fiesta Mall
Tabunok, Talisay City
(032) 462-2011

SUYO MULTI PURPOSE COOPERATIVE
Uso, Suyo, Ilocos Sur
(0906) 365-0602

TAYABAS MULTI PURPOSE COOPERATIVE
TCMC Bldg., Quezon Ave.
San Roque Zone-1
Tayabas City
(042) 793-2597/793-2873

UCPB SAVINGS BANK.
18/F UCPB Bldg.
7907 Makati Ave., Makati City
811-9000

WEALTH BANK
Ayala Banking Center
Cardinal Rosales Ave.
Cebu Business Park, Cebu City
(032) 415-8261 to 64

YUANTA SAVINGS
G/F Chatham House
Valero St., Salcedo Village
Makati City
845-3838

ZAMBANK
6 20th St., East Bajac-Bajac
Olongapo City
(047) 224-7889

AFFILIATES

BTI PAYMENTS
Level 17, 6750 Ayala Ave.
Makati City
833-0716

E-CTK SOLUTIONS
Suite 21-G, Burgundy Corporate Tower
252 Sen. Gil Puyat Ave.
Makati City
886-5871 to 72

ENCASH
4/F Citibank Center
Citibank Plaza, 8741 Paseo de Roxas
Makati City
892-5092 to 94

EURONET
Penthouse, Liberty Center
H.V. dela Costa St., Makati City
(0917) 8111364

G-CASH
32/F Trade and Financial Tower
32nd St. corner 7th Ave.
Bonifacio Global City, Taguig City

MEGALINK
4/F One E-com Center Bldg.
Palm Coast Ave.
Mall of Asia, Pasay City
556-7273

METROBANK CARD
6778 Ayala Ave., Makati City
870-0900

NATIONLINK
UG/F Vernida I Bldg.
120 Amorsolo St., Legaspi Village
Makati City
892-0200

NOVUS TRANSACT
CVCLAW Center
11th Ave. corner 39th St.
Bonifacio Global City, Taguig City
859-2938

OMNIPAY
27/F Chatham House
116 Valero St., Salcedo Village
Makati City
884-1793

PAYMAYA
7/F Launchpad Bldg.
Reliance St. corner Sheridan St.
Mandaluyong City

WIRECARD
11/F M1 Tower, H.V. Dela Costa St.
Salcedo Village, Brgy. Bel-Air
Makati City
249-2922

*as of May 15, 2019

Non-Stop Payment Network

19F BDO Equitable Tower, 8751 Paseo de Roxas
Makati City 1226

www.bancnetonline.com