



INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Fubon Insurance Broker (Philippines) Corporation
2nd Floor Pioneer House
108 Paseo de Roxas Makati City

Opinion

We have audited the accompanying financial statements of Fubon Insurance Broker (Philippines) Corporation (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

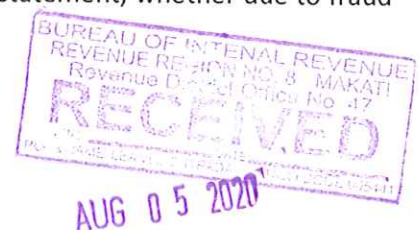
We conducted our audit in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with 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.

Other Matter

The financial statements of the Company as at and for the year ended December 31, 2018 were audited by another auditor whose report dated April 10, 2019 expressed an unmodified opinion on those financial statements.

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 PFRS, 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.

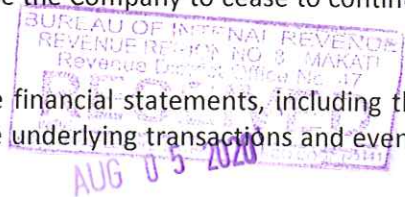
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with PSA, 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 auditors' 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 auditors' 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 our audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REYES TACANDONG & Co.

Pamela Ann P. Escudro
PAMELA ANN P. ESCUADRO

Partner

CPA Certificate No. 128829

Tax Identification No. 216-321-918-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1471-AR-1 Group A

Valid until June 4, 2021

IC Accreditation No. SP-2018-003-O

Valid until March 7, 2021

BIR Accreditation No. 08-005144-013-2020

Valid until January 1, 2023

PTR No. 8116481

Issued January 6, 2020, Makati City

April 2, 2020

Makati City, Metro Manila



FUBON INSURANCE BROKER (PHILIPPINES) CORPORATION
(A Wholly-owned Subsidiary of Fubon Insurance Co. Ltd.)

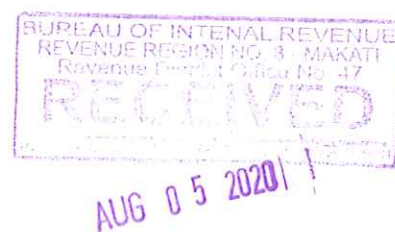
STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2019

(With Comparative Figures for 2018)

	Note	December 31	
		2019	2018
ASSETS			
Current Assets			
Cash in banks		P19,485,989	P4,551,754
Short-term investments		10,000,000	11,000,000
Trade and other receivables	4	8,623,691	4,233,842
Other current assets	5	6,448,474	5,027,650
Total Current Assets		44,558,154	24,813,246
Noncurrent Assets			
Property and equipment	6	2,430,979	190,326
Computer software	7	167,425	165,964
Total Noncurrent Assets		2,598,404	356,290
		P47,156,558	P25,169,536
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	8	P24,325,974	P6,977,184
Current portion of lease liabilities	13	1,426,120	-
Income tax payable		-	76,162
Total Current Liabilities		25,752,094	7,053,346
Noncurrent Liability			
Noncurrent portion of lease liabilities	13	977,842	-
Total Liabilities		26,729,936	7,053,346
Equity			
Capital stock		20,000,000	20,000,000
Additional paid-in capital		16,500	16,500
Retained earnings (deficit)		410,122	(1,900,310)
Total Equity		20,426,622	18,116,190
		P47,156,558	P25,169,536

See accompanying Notes to Financial Statements.



FUBON INSURANCE BROKER (PHILIPPINES) CORPORATION
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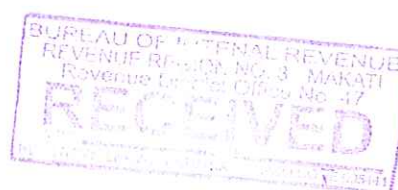
STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

(With Comparative Figures for 2018)

	Note	2019	2018 (As Restated)
SERVICE REVENUE	13	₱16,326,149	₱13,420,522
COST OF SERVICES	9	1,531,345	1,343,251
GROSS INCOME		14,794,804	12,077,271
OPERATING EXPENSES	10	(11,910,605)	(11,179,675)
INTEREST EXPENSE	13	(157,500)	–
OTHER INCOME	11	352,268	657,063
INCOME BEFORE INCOME TAX		3,078,967	1,554,659
PROVISION FOR INCOME TAX	14		
Current		848,535	637,502
Deferred		(80,000)	–
		768,535	637,502
NET INCOME		2,310,432	917,157
OTHER COMPREHENSIVE INCOME		–	–
TOTAL COMPREHENSIVE INCOME		₱2,310,432	₱917,157

See accompanying Notes to Financial Statements.



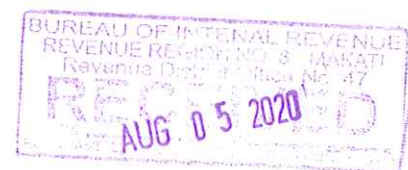
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FUBON INSURANCE BROKER (PHILIPPINES) CORPORATION
(A Wholly-owned Subsidiary of Fubon Insurance Co. Ltd.)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)

	2019	2018
CAPITAL STOCK- ₱100 par value		
Authorized, issued and outstanding - 200,000 shares	₱20,000,000	₱20,000,000
ADDITIONAL PAID-IN CAPITAL	16,500	16,500
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of year	(1,900,310)	(2,817,467)
Net income	2,310,432	917,157
Balance at end of year	410,122	(1,900,310)
	₱20,426,622	₱18,116,190

See accompanying Notes to Financial Statements.

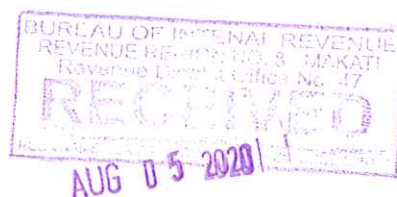


FUBON INSURANCE BROKER (PHILIPPINES) CORPORATION
(A Wholly-owned Subsidiary of Fubon Insurance Co. Ltd.)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
(With Comparative Figures for 2018)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱3,078,967	₱1,554,659
Adjustment for:			
Depreciation and amortization	6	1,124,350	173,293
Interest income	11	(162,319)	(198,256)
Interest expense	13	157,500	–
Unrealized foreign exchange gain	11	(57,883)	(194,686)
Reversal of allowance for impairment losses on receivables	4	–	(189,416)
Operating income before working capital changes		4,140,615	1,145,594
Decrease (increase) in:			
Trade and other receivables		(4,415,098)	1,188,302
Short-term investments		1,000,000	1,000,000
Other current assets		(1,420,824)	(1,493,858)
Increase (decrease) in trade and other payables		17,348,790	(12,302,109)
Net cash generated from (used in) operations		16,653,483	(10,462,071)
Income tax paid		(844,697)	(590,206)
Interest received		187,568	200,361
Net cash provided by (used in) operating activities		15,996,354	(10,851,916)
CASH FLOWS FROM AN INVESTING ACTIVITY			
Additions to computer software	7	(19,827)	(22,300)
CASH FLOWS FROM A FINANCING ACTIVITY			
Payment of lease liabilities	13	(1,100,175)	–
NET INCREASE (DECREASE) IN CASH IN BANKS		14,876,352	(10,874,216)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES IN CASH IN BANKS			
		57,883	194,686
CASH IN BANKS AT BEGINNING OF YEAR		4,551,754	15,231,284
CASH IN BANKS AT END OF YEAR		₱19,485,989	₱4,551,754

See accompanying Notes to Financial Statements.



FUBON INSURANCE BROKER (PHILIPPINES) CORPORATION
(A Wholly-owned Subsidiary of Fubon Insurance Co. Ltd.)

NOTES TO FINANCIAL STATEMENT
December 31, 2019
(With Comparative Information for 2018)

1. Corporate Information

Fubon Insurance Broker (Philippines) Corporation (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on January 11, 2013. The Company is primarily engaged to solicit, negotiate or procure the making of any insurance contract or in placing risk taking out insurance in the Philippines, on behalf of an insured, for compensation, commission or other thing of value.

The Company is a wholly-owned subsidiary of Fubon Insurance Co., Ltd. (the Parent Company), a company incorporated in Taiwan. The ultimate parent company is Fubon Financial Holding Co., Ltd, a company incorporated in Taiwan.

The Company's registered office address is at 2nd Floor Pioneer House, 108 Paseo de Roxas, Makati City.

On January 1, 2019, the Insurance Commission (IC) renewed the Company's license to operate as an Insurance Broker with Certificate of Authority No. IB-16-2019-R valid until December 31, 2021.

The financial statements as at and for the year ended December 31, 2019 were approved and authorized for issue by the Board of Directors (BOD) on April 2, 2020.

Events After the Reporting Period

The country is currently experiencing a pandemic virus crisis resulting in a slowdown in the Philippine economy because of mandated lockdowns all over the country. While the financial impact is considered a non-adjusting subsequent event as at December 31, 2019, the effect on Company operations and financial performance, however, cannot be reasonably determined as at report date.

2. Summary of Significant Accounting Policies

Basis of Preparation

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), including the SEC provisions.

Measurement Basis

The financial statements of the Company are presented in Philippine Peso (Peso), the Company's functional and presentation currency. All amounts are rounded to the nearest Peso unless otherwise stated.

The financial statements have been prepared on the historical cost basis of accounting. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and fair value of the consideration received in exchange for incurring a liability.

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

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

Level 1 – Quoted (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; and

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

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

Further information about the assumptions made in measuring fair values is included in Note 16 - Fair Value Management.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – PFRS 16 replaced PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, Standard Interpretations Committee (SIC)-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard provides two recognition exemptions for lessees from this PFRS – leases of low-value assets and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, the lessee shall recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The lessee is required to recognize the interest on the lease liability and to depreciate the right-of-use (ROU) asset.

The lease liability shall be reviewed when there are changes in the lease term and other events affecting the lease, such as future lease payments resulting from a change in the index or rate used to determine those payments. The remeasurement of the lease liability should be recognized as an adjustment to the ROU asset.

Lessor accounting under PFRS 16 is substantially unchanged from accounting under PAS 17. The lessor shall continue to classify leases using the same classification principle as in PAS 17 to distinguish the two types of leases: operating and finance leases.

The Company has adopted PFRS 16 using the modified retrospective method, which requires that the cumulative effect of applying the new standard is recognized at the beginning of the year of initial application. Accordingly, the comparative information presented for 2018 has not been restated.

The Company elected to use the practical expedient transitioning, to allow the standard to be applied only to contracts that were previously identified as leases under PAS 17 and Philippine Interpretation IFRIC 4 at the date of initial application. The Company also elected to apply the recognition exemption on leases of low-value assets and short-term leases. The related lease expenses on these lease agreements are recognized in the profit or loss on a straight-line basis.

In the recognition of lease liabilities and ROU assets, the Company has applied a weighted average incremental borrowing rate of 8%.

On January 1, 2019, the Company recognized ROU assets and lease liabilities amounting to ₱0.7 million (see Note 13).

- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under PAS 12, *Income Taxes*, in particular (i) matters to be considered in accounting for uncertain tax treatments separately, (ii) assumptions for taxation authorities' examinations, (iii) determinants of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) effect of changes in facts and circumstances.
- Amendments to PFRS 9, *Financial Instruments - Prepayment Features with Negative Compensation* – The amendments clarify that a financial asset passes the “solely payments of principal and interest” criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. Consequently, financial assets with termination provisions can now be measured at amortized cost [or, depending on the business model, at fair value through other comprehensive income (FVOCI)].

- Amendments to PAS 12, *Income Taxes - Income Tax Consequences of Payments on Financial Instruments Classified as Equity* – The amendments require entities to recognize the income tax consequences of dividends as defined in PFRS 9 when the liability to pay dividends are recognized. The income tax consequences of dividends are recognized either in profit or loss, other comprehensive income or equity, consistently with the transactions that generated the distributable profits. This requirement applies to all income tax consequences of dividends, such as withholding taxes.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements of the Company. Additional disclosures will be included in the financial statements, as applicable.

New and Amended PFRS Issued But Not Yet Effective

Relevant new and amended PFRS which are not yet effective for the year ending December 31, 2019 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to the Conceptual Framework in PFRS – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting. The amendments should be applied retrospectively unless retrospective application would be impracticable or involve undue cost or effort.
- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, ‘an integrated set of activities and assets’ must now include ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.
- Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, an information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Effective for annual periods beginning on or after January 1, 2021 –

- PFRS 17, *Insurance Contracts* – This standard will replace PFRS 4. It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect in the financial statements of the Company except for PFRS 16. Additional disclosures will be included in the financial statements, as applicable.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset or a liability or equity instrument of another entity.

Date of Recognition. The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

“Day 1” Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the Company deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference.

Financial Assets

Classification. The Company classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVOCI, and (c) financial assets at FVPL. The classification of a financial instrument largely depends on the Company’s business model and its contractual cash flow characteristics.

As at reporting date, the Company does not have financial assets measured at FVPL and FVOCI.

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

The Company's cash in banks, short-term investments, trade and other receivables (excluding advances to officers and employees) and refundable deposits (included under "Other current assets" account) are classified under this category (see Notes 4 and 5).

Cash in Banks. Cash in banks is measured at face value and earns interest at prevailing bank deposit rates.

Short-term Investments. Short-term investments pertain to investments with maturity periods of more than three months but less than one year, measured at face value, and earn interest at the respective short-term investment rates.

Refundable Deposits. Refundable deposits arise from operating lease agreements. Refundable deposits maturing within 12 months from reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Impairment. The Company recognizes an allowance for expected credit losses (ECL) for all financial instruments not measured at FVPL. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables without significant financing component, the Company has applied the simplified approach in measuring ECL. The Company also elected to apply simplified approach for trade receivables with significant financing component.

Simplified approach requires that ECL should always be based on the lifetime ECL. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For other financial instruments measured at amortized cost. The ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

The Company considers a financial asset to be in default when contractual payments are 90 days past due unless it is demonstrated that the non-payment was an administrative oversight rather than resulting from financial difficulty of the borrower. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Reclassification. The Company reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income (OCI).

There were no reclassifications of financial assets in 2019 and 2018.

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

- The right to receive cash flows from the asset has expired;
- The Company retains the right to receive cash flows from the financial 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 right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of ownership of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of ownership of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from a financial asset or has entered into a “pass-through” arrangement and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company’s continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities

Classification. The Company classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost, (b) financial liabilities at FVPL.

As at reporting date, the Company does not have financial liabilities measured at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when 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 settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest 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 effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

The Company's trade and other payables (excluding payable to government agencies) are classified under this category (see Note 8).

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- 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.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

Modification. A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in profit or loss.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities

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

Other Current Assets

Other current assets include creditable withholding taxes (CWT), refundable deposits and prepayments that are initially recorded at transaction cost.

CWT. CWT represent the amount withheld by the Company's customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

Prepayments. Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to expense as these are consumed in operations or expire with the passage of time.

Prepayments are classified in the statement of financial position as current assets when it is expected to be realized for no more than 12 months after the reporting date. Otherwise, prepayments are classified as noncurrent assets.

Value-Added Tax (VAT). Revenue, expenses and assets are recognized net of the amount of VAT except:

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

The net amount of VAT payable to the taxation authority is included as part of "Trade and other payables" account.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment loss.

The initial cost of property and equipment comprises its purchase price, including import duties and nonrefundable taxes and any direct costs attributable in bringing the assets to its working condition and location for its intended use.

Expenditures incurred after the assets have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year the cost 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 additional costs of the assets.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

<u>Asset Type</u>	<u>Number of Years</u>
ROU assets	5 or term of the lease, whichever is shorter
Office furniture and fixtures	5
Office equipment	5

Depreciation and amortization commence when the asset is in its location or condition capable of being operated in the manner intended by management. Depreciation and amortization cease at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognized.

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

Fully depreciated and amortized property and equipment are retained in the account until these are no longer in use and no further charge for depreciation and amortization is made in respect of these assets.

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

Computer Software

Computer software is stated at cost, which includes purchase price and other direct costs, less accumulated amortization and any impairment losses. Computer software is amortized over its useful life of three years on a straight-line basis and assessed for impairment whenever there is an indication that the computer software may be impaired. The estimated useful life and amortization method for computer software are reviewed at least annually. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the computer software are recognized as part of current operations.

When computer software is retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment losses are removed from the accounts. Any resulting gain or loss is recognized in profit or loss.

Impairment of Nonfinancial Assets

At each reporting date, nonfinancial assets are reviewed to determine whether there is any indication that these assets maybe impaired. If there is an indication of possible impairment, the recoverable amount of any asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

The recoverable amount of an asset is the greater of its value in use or its fair value less cost of disposal. Value in use is the present value of future cash flows expected to be derived from an asset. 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 assessment of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Reversals of impairment are recognized in profit or loss.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued and outstanding.

Additional Paid-in Capital. Additional paid-in capital includes any premium received in the initial issuances of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax.

Retained Earnings (Deficit). Retained earnings (deficit) represent the cumulative balance of net income or losses.

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Company perform its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Company also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Company has assessed that it acts as an agent in all of its revenue sources.

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

Service Income. Service income is recognized when services as an insurance broker have been rendered which includes gross inflows of economic benefits received and receivable by the entity on its own account. The amounts collected on behalf of the insurance providers are not recognized as revenue.

Other Income. Other income is recognized when the earning process is complete and the flow of economic benefits is reasonably assured.

Revenue outside the scope of PFRS 15 is recognized as follows:

Interest Income. Interest income is recognized as the interest accrues, taking into consideration the effective yield on the asset.

Cost and Expense Recognition

Costs and expenses are recognized in profit or loss upon consumption of goods or utilization of services at the date these expenses are incurred.

Cost of Services. Cost of services pertains to cost directly attributable to the revenue generating activities of the Company. It is recognized when the related expense to render the services are incurred.

Operating Expenses. Operating expenses constitute cost of administering the business. These are expensed as incurred.

Related Party Transactions and Relationships

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties.

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. This includes: (a) individuals who, owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

Leases

a. Accounting policies prior to January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- i. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- ii. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- iii. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- iv. There is a substantial change to the asset.

Where reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (i), (ii) or (iv) and at the date of renewal or extension period for scenario (ii).

The Company as a Lessee. Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

b. Accounting policies beginning January 1, 2019

The Company assesses whether the contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use, it has both of the following:

- i. The right to obtain substantially all of the economic benefits from the use of the identified asset; and
- ii. The right to direct the use of the identified asset.

If the Company has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.

The Company also assesses whether a contract contains a lease for each potential separate lease component.

The Company as a Lessee. At the commencement date, the Company recognizes ROU assets and lease liabilities for all leases, except for leases with lease terms of 12 months or less (short-term leases) and leases for which the underlying asset is of low value in which case the lease payments associated with those leases are recognized as an expense on a straight-line basis.

ROU Assets. At commencement date, the Company measures ROU assets at cost. The cost comprises:

- i. The amount of the initial measurement of lease liabilities;
- ii. Any lease payments made at or before the commencement date less any lease incentives received;
- iii. Any initial direct costs; and
- iv. An estimation of costs to be incurred by the Group in dismantling and removing the underlying asset, when applicable.

The ROU assets are recognized at the present value of the liability at the commencement date of the lease, adding any directly attributable costs. After the commencement date, the ROU assets are carried at cost less any accumulated amortization and accumulated impairment losses, and adjusted for any remeasurement of the related lease liabilities. The ROU assets are amortized over the shorter of the lease terms or the useful lives of the underlying assets.

Lease Liabilities. At commencement date, the Company measures a lease liability at the present value of future lease payments using the interest rate implicit in the lease, if that rate can be readily determined. Otherwise, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of a lease liability comprise the following:

- i. Fixed payments, including in-substance fixed payments;
- ii. Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- iii. Amounts expected to be payable by the lessee under residual value guarantees; and
- iv. The exercise price under a purchase option that the Company is reasonably certain to exercise; lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

A lease liability is subsequently measured at amortized cost. Interest on the lease liability and any variable lease payments not included in the measurement of lease liability are recognized in profit or loss unless these are capitalized as costs of another asset. Variable lease payments not included in the measurement of the lease liability are recognized in profit or loss when the event or condition that triggers those payments occurs.

If there is a change in the lease term or if there is a change in the assessment of an option to purchase the underlying asset, the lease liability is remeasured using a revised discount rate considering the revised lease payments on the basis of the revised lease term or reflecting the change in amounts payable under the purchase option. The lease liability is also remeasured using the revised lease payments if there is a change in the amounts expected to be payable under a residual value guarantee or a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

For income tax reporting purposes, expenses under operating lease agreements are treated as deductible expenses in accordance with the terms of the lease agreements.

Foreign Currency Denominated Transactions

The Company determines its own functional currency and items included in the financial statements are measured using that functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of each reporting date. All differences are taken to profit or loss. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was measured.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses in the year such are realized.

Employee Benefits

Short-term Employee Benefits. The Company provides short-term benefits to its employees in the form of basic salary, 13th month pay, leave credits, bonuses, employer's share on government contributions and other short-term benefits.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

Income Tax

Current Tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

Deferred Tax. Deferred tax is provided 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 is recognized in profit or loss except for items recognized in other comprehensive income or item recognized directly in equity.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefit of loss allowance, unused net operating loss carryover (NOLCO) and minimum corporate income tax (MCIT) to the extent that it is probable that future taxable income will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the reporting date.

Offsetting. Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Company plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation and the amount can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingencies

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

Events after the Reporting Date

Events after the reporting date that provide additional information about the Company's financial position as at reporting date (adjusting events) are reflected in the financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to exercise judgments, make estimates and use assumptions that affect the amounts reported in the financial statements and accompanying notes. These judgments, estimates and assumptions are based upon management's evaluation of relevant facts and circumstances as at reporting date. Actual results could differ from these judgments, estimates and assumptions used and the effect of any change in estimates will be adjusted accordingly when these become reasonably determinable.

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

The Company believes the following represent a summary of these significant judgments, estimates and assumptions and related impact and associated risks in the financial statements.

Judgments

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

Determining Functional Currency. Based on the economic substance of the underlying events and circumstances relevant to the Company, the functional currency has been determined to be the Philippine Peso. It is the currency of the primary economic environment in which the Company operates.

Recognizing Revenue from Service Income. The recognition of revenue over time requires certain judgment on the methods used to recognize revenue. The Company recognizes revenue if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Company performance as the entity performs;
- The Company performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Company performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The service income recognized over time amounted to ₱16.3 million in 2019 (₱13.4 million in 2018).

Determining whether the Company Acts as a Principal or an Agent on its Service Income. The Company determined that it has no control over the determination of its service income. The Company receives its revenues by providing services to its principals. Accordingly, the Company determined that it acts in the capacity of an agent, rather than as a principal in its operations.

Classifying Leases prior to January 1, 2019. The Company classifies leases in accordance with the substance of the contractual agreement and the transfer of risks and rewards incidental to ownership of the leased asset. Leases, where the management has determined that the risks and rewards incidental to ownership related to the leased asset are transferred to the lessee, are classified as finance lease. On the other hand, leases entered into the by the Company, where management has determined that the risks and rewards incidental to ownership of the leased asset are retained with the Company, are accounted for as operating leases.

The Company has various operating lease agreements covering its car and office space. The Company has determined that the risks and rewards incidental to ownership of leased asset are retained by the lessor. Accordingly, the lease agreement is accounted for as an operating lease.

Rent expense amounted to ₱3.0 million in 2018 (see Note 10).

Classifying Leases beginning January 1, 2019. The Company, as a lessee, has entered into operating lease agreements for its car and office space. For the Company's non-cancellable lease, the Company recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Company's incremental borrowing rate. The Company availed exemption for short-term leases with term of 12 months or less. Accordingly, lease payments on the short-term lease are recognized as expense on a straight-line basis over the lease term.

Significant judgment was likewise exercised by the Company in determining the discount rate to be used in calculating the present value of ROU assets and lease liabilities. The discount rate is represented by the incremental borrowing rate, which is the Bloomberg Valuation (BVAL) rate and credit spread as determined by the Ultimate Parent Company.

The carrying amount of ROU assets (included as part of "Property and equipment" account) and lease liability amounted to ₱2.3 million and ₱2.4 million, respectively, as at December 31, 2019 (see Notes 6 and 13).

Rent expense on short-term lease and amortization of ROU assets in 2019 amounted to ₱2.4 million and ₱1.0 million, respectively (see Note 13).

Estimates and Assumptions

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

Estimating ECL on Trade and Other Receivables. When the Company assessed that there is a significant change in the credit risk, the Company estimates ECL using a provision matrix which considers the Company's historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Company determined that there is no significant change in the credit risk on its trade and other receivables. Accordingly, no impairment loss was recognized in 2019 (and 2018). Allowance for impairment losses on receivables amounted to ₱0.5 million as at December 31, 2019 (₱0.5 million as at December 31, 2018) (see Note 4). The carrying amount of trade and other receivables amounted to ₱8.6 million as at December 31, 2019 (₱4.2 million as at December 31, 2018) (see Note 4).

Estimating Useful Lives of Property and Equipment and Computer Software. The Company estimates the useful lives of property and equipment and computer software based on the periods over which these assets are expected to be available for its use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of these assets would increase the recorded operating expenses and decrease the carrying amount of the assets.

There was no change in the estimated useful lives of property and equipment in 2019 (and 2018).

Assessing Impairment Losses on Nonfinancial Assets. The Company assesses the impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable.

Factors that the Company considers in deciding when to perform impairment review includes the following, among others:

- Significant changes or planned changes in the use of the assets or the strategy for overall business;
- Significant under-performance relative to expected historical or projected future operating results; and
- Significant negative industry or economic trends.

The Company determined that there are no indications of impairment on its nonfinancial assets. Accordingly, no impairment losses was recognized in 2019 (and 2018).

The carrying amount of nonfinancial assets as at December 31, 2019 as follows:

	Note	2019	2018
Property and equipment	6	₱2,430,979	₱190,326
Computer software	7	167,425	165,964

Assessing Realizability of Deferred Tax Assets. The Company reviews the carrying amounts of net deferred tax assets at each financial reporting date and reduces net deferred tax assets to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be utilized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Company's unrecognized deferred tax assets amounted to ₱0.2 million as at December 31, 2019 (₱0.5 million as at December 31, 2018) (see Note 14).

4. Trade and Other Receivables

This account consists of:

	Note	2019	2018
Trade		₱8,598,909	₱4,392,084
Advances to stockholders	12	254,495	–
Advances to officers and employees		175,016	221,238
Interest receivable		91,422	116,671
		9,119,842	4,729,993
Less allowance for impairment losses		496,151	496,151
		₱8,623,691	₱4,233,842

Trade receivables consist of commissions due from insurance companies. These are noninterest-bearing and are generally on a 30 to 60-day credit term.

Advances to officers and employees are noninterest-bearing advances and are settled through liquidation.

Interest receivable represents interest on short-term placements.

Movements in allowance for impairment losses follow:

	Note	2019	2018
Balance at beginning of year		₱496,151	₱685,567
Reversal	11	–	(189,416)
Balance at end of period		₱496,151	₱496,151

5. Other Current Assets

This account consists of:

	Note	2019	2018
CWT		₱5,513,034	₱4,260,870
Refundable deposits	13	579,362	459,611
Prepayments		356,078	307,169
		₱6,448,474	₱5,027,650

Refundable deposits arise from operating lease agreements for car and office rentals which are renewable upon mutual written agreement of the parties.

6. Property and Equipment

Movements in this account are summarized below:

	2019			Total
	ROU Assets	Office Furniture and Fixtures	Office Equipment	
Cost				
Balance at beginning of year	₱718,279	₱489,674	₱520,580	₱1,728,533
Additions	2,628,358	–	–	2,628,358
Balance at end of year	3,346,637	489,674	520,580	4,356,891
Accumulated Depreciation				
Balance at beginning of year	–	357,381	462,547	819,928
Depreciation	1,002,352	75,346	28,286	1,105,984
Balance at end of year	1,002,352	432,727	490,833	1,925,912
Carrying Amount	₱2,344,285	₱56,947	₱29,747	₱2,430,979

	2018		Total
	Office Furniture and Fixtures	Office Equipment	
Cost			
Balance at beginning and end of year	₱489,674	₱520,580	₱1,010,254
Accumulated Depreciation			
Balance at beginning of year	276,387	388,110	664,497
Depreciation	80,994	74,437	155,431
Balance at end of year	357,381	462,547	819,928
Carrying Amount	₱132,293	₱58,033	₱190,326

Depreciation and amortization arise from the following:

	Note	2019	2018
Property and equipment		₱1,105,984	₱155,431
Computer software	7	18,366	17,862
	10	₱1,124,350	₱173,293

The cost of fully depreciated property and equipment still being used in operations amounted to ₱0.5 million as at December 31, 2019 (₱0.3 million as at December 31, 2018).

7. Computer Software

Movements of this account are as follows:

	Note	2019	2018
Cost			
Balance at beginning of year		₱1,702,574	₱1,680,274
Additions		19,827	22,300
Balance at end of year		1,722,401	1,702,574
Accumulated Amortization			
Balance at beginning of year		1,536,610	1,518,748
Amortization	6	18,366	17,862
Balance at end of year		1,554,976	1,536,610
Carrying Amount		₱167,425	₱165,964

8. Trade and Other Payables

	2019	2018
Trade	P23,214,159	P5,950,079
Accruals for:		
Professional fees	154,835	94,864
Utilities	43,665	21,975
Others	395,912	383,620
Payable to government agencies	517,403	526,646
	P24,325,974	P6,977,184

Trade payable are noninterest-bearing and are normally settled within 15 - 90 days.

Payable to government agencies are normally settled within the subsequent month.

Accruals are noninterest-bearing and are normally settled throughout the subsequent month.

9. Cost of Services

Salaries and other employee benefits amounting to P1.5 million in 2019 (P1.3 million in 2018) previously included under "Operating expenses" account was reclassified to "Cost of services" account as the Company assessed that these are direct cost in generating revenue.

10. Operating Expenses

This account consists of:

	Note	2019	2018
Salaries and employee benefits		P5,014,584	P3,711,274
Rent	13	2,404,520	2,980,042
Depreciation and amortization	6	1,124,350	173,293
Representation and entertainment		766,103	865,484
Communication, light and water		658,203	777,775
Transportation and travel		563,748	662,880
Professional fees		520,246	970,660
Insurance expense		282,531	203,138
Taxes and licenses		174,242	134,861
Registration		159,528	98,148
Repairs and maintenance		84,774	142,035
Supplies		22,916	78,739
Others		134,860	381,346
		P11,910,605	P11,179,675

11. Other Income

This account consists of:

	Note	2019	2018
Interest income		₱162,319	₱198,256
Unrealized foreign exchange gain		57,883	194,686
Recovery of accounts written-off	4	–	189,416
Others		132,066	74,705
		₱352,268	₱657,063

12. Related Party Transactions

The Company has noninterest-bearing cash advances to its stockholders amounting to ₱0.3 million in 2019 (nil in 2018). Outstanding balance of advances amounted to ₱0.3 million as at December 31, 2019 (nil as at December 31, 2018).

Outstanding balances of transactions with related parties at year-end are unsecured, payable on demand and settlements are made in cash. The Company did not provide for any impairment loss on the said advances in 2019 (and 2018).

Compensation of Key Management Personnel

Compensation of key management personnel which pertain to short-term benefits amounted to ₱3.5 million in 2019 (₱2.7 million in 2018).

13. Commitments and Agreements

a. Broker's Agreements

The principal insurance companies authorized the Company to act as an insurance broker on behalf of the former to solicit, transact and service (life, non-life as applicable) and/or reinsurance business that the insurer is authorized to write and to collect and receive premiums from their clients. In return, the Company is entitled to commissions for the premiums sold.

Service income earned from insurance policies sold amounted to ₱16.3 million in 2019 (₱13.4 million in 2018).

b. Lease Agreements

The Company, as a lessee, has entered into lease agreements for office space and car rentals with varying terms ranging between one to three years. The leases are renewable upon mutual written agreement of the parties.

Lease payments for short-term operating lease agreements with third party lessors are recognized as expense on a straight line basis over the lease term.

Refundable deposits amounted to ₱0.6 million as at December 31, 2019 (₱0.5 million as at December 31, 2018) (see Note 5).

The carrying amount of ROU assets amounted to ₱2.3 million in 2019 (nil in 2018) (see Note 6).

Interest expense incurred arising from lease liabilities amounted to ₱0.2 million in 2019 (nil in 2018).

Movements in lease liabilities in 2019 are as follows:

	Note	
Balance as at beginning of year	2	₱718,279
Additions		2,628,358
Payments		(1,100,175)
Interest expense		157,500
Balance at end of year		2,403,962
Current portion		(1,426,120)
Noncurrent portion		₱977,842

Lease-related accounts recognized in the statement of comprehensive income are as follows:

	Note	2019	2018
Rent expense	10	₱2,404,520	₱2,980,042
Depreciation of ROU assets	6	1,002,352	–
Interest expense on lease liabilities		157,500	–
		₱3,564,372	₱2,980,042

Rent expense in 2019 pertains to short-term leases of residential units with periods of 12 months or less as at January 1, 2019.

Future minimum lease payments under operating leases are as follows:

	2019	2018
Within one year	₱1,612,245	₱1,249,611
After one year but not more than five years	830,000	500,000
	₱2,442,245	₱1,749,611

14. Income Taxes

The Company's income tax represents regular corporate income tax in 2019 (and 2018).

The management has assessed that the Company may not have sufficient taxable income against which these temporary differences can be fully utilized. Consequently, deferred tax asset amounting to ₱0.2 million as at December 31, 2019 (₱0.5 million as at December 31, 2018) were not recognized.

Details of unrecognized deferred tax assets are as follows:

	2019	2018
Deferred tax assets on:		
Allowance for impairment losses on receivables	P148,845	P148,845
Lease liabilities net of ROU assets	65,153	–
MCIT	–	80,000
NOLCO	–	313,506
	213,998	542,351
Deferred tax liability on unrealized foreign exchange gain	(17,365)	(58,406)
Net deferred tax assets	P196,633	P483,945

In 2019, the Company applied its NOLCO against taxable income and MCIT against income tax due amounting to P1.0 million and P80,000, respectively.

The reconciliation between income tax expense computed at statutory income tax rate and the provision for income tax shown in the statements of comprehensive income are as follows:

	2019	2018
Income tax expense at statutory income tax rate	P923,690	P466,398
Movement in unrecognized DTA	(287,312)	(316,599)
Income tax effects of:		
Nondeductible representation expense	180,853	308,732
Interest income already subjected to final tax	(48,696)	(59,477)
Expired NOLCO	–	238,448
	P768,535	P637,502

15. Financial Risk Management Objectives and Policies and Capital Management

The Company's principal financial instruments comprise of cash in banks, short-term investments, trade and other receivables, refundable deposits (included under "Other current assets" account), and trade and other payables (excluding payable to government agencies), which arise directly from its operations.

Risk Management Framework

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk and interest rate risk. Financial risks are managed under policies approved and monitored by the BOD.

The BOD has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management is coordinated with senior management, in close cooperation with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

This note presents information about the Company's exposure to each of the foregoing risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout the financial statements.

The following information presents the Company's exposure to each of the above risks:

Credit Risk. Credit risk is the risk that the Company will incur a loss because its counterparties failed to discharge their contractual obligations. The Company trades only with recognized and creditworthy third parties. It is the Company's practice that all insurance providers who wish to conduct business with the Company are subject to the Company's accreditation procedures. In addition, accounts receivable are monitored on an ongoing basis. Thus, exposure to bad debts is reduced.

The Company's maximum exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments, without taking account of the value of any collateral obtained:

	2019	2018
Financial assets at amortized cost:		
Cash in banks	P19,485,989	P4,551,754
Short-term investments	10,000,000	11,000,000
Trade and other receivables*	8,448,675	4,012,604
Refundable deposits (included under "Other current assets" account)	579,362	459,611
	P38,514,026	P20,023,969

**Excluding advances to officers and employees settled through liquidation amounting to P0.2 million as at December 31, 2019 (P0.2 million as at December 31, 2018).*

The Company's financial assets at amortized cost are mostly composed of cash in various banks, short-term investments, trade and other receivables and refundable deposits. The Company limits its exposure to credit risk by investing its cash only with banks that have good credit standing and reputation in the banking industry, and transacting only with recognized and credit-worthy counterparties.

It is the Company's policy to measure ECL on the above instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

When determining if there has been a significant increase in credit risk, the Company considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed such as, but not limited to, the following factors:

- Actual or expected external and internal credit rating downgrade;
- Existing or forecasted adverse changes in business, financial or economic conditions in the industry; and
- Actual or expected significant adverse changes in the operating results of the borrower.

The table below presents the summary of the Company's exposure to credit risk and shows the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL.

	December 31, 2019			Total
	12-month ECL (High Grade)	Lifetime ECL – not impaired (Standard Grade)	Lifetime ECL – credit impaired	
Financial assets at amortized cost:				
Cash in banks	₱19,485,989	₱–	₱–	₱19,485,989
Short-term investments	10,000,000	–	–	10,000,000
Trade and other receivables*	–	8,448,675	496,151	8,944,826
Refundable deposits (included under "Other current assets" account)	579,362	–	–	579,362
	₱30,065,351	₱8,448,675	₱496,151	₱39,010,177

*Excluding advances to officers and employees settled through liquidation amounting to ₱0.2 million.

	December 31, 2018			Total
	12-month ECL (High Grade)	Lifetime ECL – not impaired (Standard Grade)	Lifetime ECL – credit impaired	
Financial assets at amortized cost:				
Cash in banks	₱4,551,754	₱–	₱–	₱4,551,754
Short-term investments	11,000,000	–	–	11,000,000
Trade and other receivables*	–	4,012,604	496,151	4,508,755
Refundable deposits (included under "Other current assets" account)	459,611	–	–	459,611
	₱16,011,365	₱4,012,604	₱496,151	₱20,520,120

*Excluding advances to officers and employees settled through liquidation amounting to ₱0.2 million.

The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics.

Cash in banks and short-term investments are considered to have low credit risk investments because the Company transacted with banks that have good credit rating and low probability of insolvency.

Trade receivables and other receivables (excluding advances to officers and employees settled through liquidation) also have low credit risk, since the Company only transacted with reputable companies with respect to these financial assets.

Refundable deposits are of low credit risk, since these are deposits made to a company with low probability of insolvency.

The credit quality of financial assets is being managed by the Company using internal credit ratings. Credit quality of the financial assets were determined as follows:

High Grade. It pertains to accounts with a very low probability of default as demonstrated by the borrower's long history of stability, profitability and diversity. It includes deposits or placements to reputable banks and companies with good credit standing. High grade financial assets include cash in banks, short-term investments, and refundable deposits.

Standard Grade. It pertains to receivables from counterparties with satisfactory financial capability and credit standing based on historical data, current conditions and the Company's view of forward-looking information over the expected lives of the receivables. Standard grade financial assets include trade and other receivables (excluding advances to officers and employees settled through liquidation).

Substandard Grade. It pertains to accounts with history of default and include financial assets that are collected on their due dates provided that the Company made a persistent effort to collect them.

Liquidity Risk. Liquidity risk arises from the possibility that the Company may encounter difficulties in raising funds to meet maturing obligations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated funds. The Company maintains cash to meet its liquidity requirements for up to a 60-day period. Excess cash are invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The tables below summarize the maturity profile of the Company's financial liabilities as at December 31 based on undiscounted payments:

	2019					Total
	On Demand	Less than One Year	One to Two Years	Two to Four Years	More than Five Years	
Trade and other payables*	₱23,808,571	₱-	₱-	₱-	₱-	₱23,808,571
Lease liability**	-	1,566,900	1,026,725	-	-	2,593,625
	₱24,325,975	₱1,566,900	₱1,026,725	₱-	₱-	₱26,402,196

*Excluding payable to government agencies amounting to ₱0.5 million.

**Including future interest payments amounting to ₱0.2 million.

	2018					Total
	On Demand	Less than One Year	One to Two Years	Two to Four Years	More than Five Years	
Trade and other payables*	₱6,450,538	₱-	₱-	₱-	₱-	₱6,450,538

*Excluding payable to government agencies amounting to ₱0.5 million.

Foreign Currency Exchange Risk. The Company's exposure to foreign currency risk results from its cash in banks denominated in United States Dollar (US\$), which management believes that such risk is minimal. The exposure in US foreign currency risk is managed by monitoring the foreign exchange movement on a monthly basis.

The carrying amount of the Company's monetary assets denominated in US dollars at the reporting date are as follows:

	December 31, 2019		December 31, 2018	
	US Dollar	Peso	US Dollar	Peso
Cash in bank	US\$4,152	₱210,672	US\$5,084	₱268,028

The sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's net income before income tax and equity for the year ended December 31, 2019 (and 2018) are as follows:

2019			
	Increase (decrease) in Foreign Exchange Rate	Effect on Income Before Income Tax	Effect on Equity
US\$	3.76%	P7,921	P5,545
	(3.76%)	(7,921)	(5,545)
2018			
	Increase (decrease) in Foreign Exchange Rate	Effect on Income Before Income Tax	Effect on Equity
US\$	5.62%	P15,063	P10,544
	(5.62%)	(15,063)	(10,544)

The exchange rate used for conversion of US\$ amounts to its Peso equivalent is P50.74 in 2019 (P52.72 in 2018).

Interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The primary source of the Company's interest rate risk relates to interest-bearing financial assets, particularly on cash in banks and short-investments.

As at December 31, 2019 (and December 31, 2018), the Company's cash in banks and short-term investments have fixed interest rates as disclosed in Note 4. The effect of interest rate sensitivity on profit or loss is insignificant.

Capital Management

The primary objective of the Company's capital management is to ensure that it complies with the IC requirements. The Company manages its capital structure and makes adjustments whenever there are 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 and process in 2019 (and 2018).

On **October 19, 2018**, the IC issued Circular Letter (the CL) No. 2018-52 which discusses the minimum requirements for insurance brokers or reinsurance brokers as summarized below.

Minimum Net Worth Requirements. The Company is subject to externally imposed minimum net worth requirements as follows:

New entrant as an insurance broker or reinsurance broker	P20,000,000
New entrant as an insurance broker and reinsurance broker	50,000,000
Existing insurance or reinsurance broker	10,000,000
Existing insurance and reinsurance broker	25,000,000

The Company's estimated net worth as at December 31, 2019 follows:

Capital stock	P20,000,000
Additional paid-in capital	16,500
Retained earnings	410,122
Total equity	20,426,622
Less: Non-admitted assets	7,749,252
Net worth	12,677,370
Less: Net worth requirements	10,000,000
	P2,677,370

Receivables over 90 days, advances to stockholders, prepayments, office equipment and furniture and fixtures are generally non-admitted assets.

The Company has incurred net worth deficiency in 2018 which was cleared with the IC on January 6, 2020.

As at December 31, 2019, the Company's estimated net worth is in compliance with the minimum net worth requirements of the IC.

Required Bond for Insurance Brokers. Pursuant to Republic Act No. 10607 enacted on August 15, 2013, every applicant for insurance broker's license shall file with the IC and shall thereafter maintain in force while so licensed, a bond in favor of the People of the Republic of the Philippines executed by a Company authorized to become surety upon official recognizances, stipulations, bonds and undertakings. The bond shall be in such amount as may be fixed by the Commissioner but in no case less than P500,000 and shall be conditioned upon full accounting and due payment to the person entitled thereto of funds coming into the broker's possession through insurance transactions under license.

The IC, in the CL, has set the bond requirements for insurance brokers. Every application for issuance of new or renewal of broker's license, except reinsurance broker, shall be accompanied by a bond in the amount of not less than P1.0 million in favor of the People of the Republic of the Philippines.

The Company has complied with the required bond for insurance brokers as at December 31, 2019 (and December 31, 2018).

Required Errors and Omissions Policies. Insurance brokers or reinsurance brokers must file two Errors and Omissions (Professional Liability or Professional Indemnity) insurance policies issued separately by two insurance companies authorized to do business in the Philippines.

The Company has complied with the required errors and omissions policies requirement as at December 31, 2019 (and December 31, 2018).

The debt-to-equity ratio is as follows:

	2019	2018
Total liabilities	P26,729,936	P7,053,346
Total equity	20,467,662	18,116,190
Debt-to-equity ratio	1.31:1	0.39:1

16. Fair Value Measurement

The following is a comparison by category of carrying amounts and fair values of the Company's financial instruments that are reflected in the financial statements:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Financial assets at amortized cost:				
Cash in banks	₱19,485,989	₱19,485,989	₱4,551,754	₱4,551,754
Short-term investments	10,000,000	10,000,000	11,000,000	11,000,000
Trade and other receivables*	8,448,675	8,448,675	4,012,604	4,012,604
Refundable deposits (included under "Other current assets" account)	579,362	579,362	459,611	459,611
	₱38,514,026	₱38,514,026	₱20,023,969	₱20,023,969
Financial Liabilities				
Financial liabilities at amortized cost -				
Trade and other payables**	₱24,325,975	₱24,325,975	₱6,450,538	₱6,450,538
Lease liabilities	2,403,962	2,403,962	-	-
	₱26,729,937	₱26,729,937	₱6,450,538	₱6,450,538

*Excluding advances to officers and employees settled through liquidation amounting to ₱0.2 million as at December 31, 2019 (₱0.2 million as at December 31, 2018).

** Excluding payable to government agencies amounting to ₱0.5 million December 31, 2019 (₱0.5 million December 31, 2018).

Financial Assets and Liabilities at Amortized Cost. The carrying amounts of cash in banks, short-term investments, trade and other receivables (excluding advances to officers and employees, refundable deposits (included under "Other current assets" account), trade and other payables (excluding payable to government agencies) and lease liabilities approximate its fair values due to their short-term maturities.

Fair Value Hierarchy

For the year ended December 31, 2019 (and December 31, 2018), there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

FUBON INSURANCE BROKER (PHILIPPINES) CORPORATION

(A Wholly-owned Subsidiary of Fubon Insurance Co. Ltd.)

SUPPLEMENTARY SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

UNDER THE REVISED SECURITIES REGULATION CODE RULE 68

AS OF DECEMBER 31, 2019 AND 2018

(With Comparative Figures for 2018)

Ratio	Formula	2019	2018
Current ratio/Acid test ratio	Current assets / Current liabilities	1.73	3.52
Current assets		₱44,558,154	₱24,813,246
Current liabilities		25,752,094	7,053,346
Solvency ratio	After-tax profit before depreciation / Total liabilities	0.13	0.15
After-tax profit before depreciation		3,434,782	1,090,450
Total liabilities		26,729,936	7,053,346
Debt-to-equity ratio	Total liabilities / Total equity	1.31	0.39
Total liabilities		26,729,936	7,053,346
Total equity		20,426,622	18,116,190
Asset-to-equity ratio	Total assets / Total equity	2.31	1.39
Total assets		47,156,558	25,169,536
Total equity		20,426,622	18,116,190
Interest rate coverage ratio	Before-tax and interest expense profit / Interest payments	20.55	0.00
Before-tax and interest expense profit		3,236,467	1,554,659
Interest payments		157,500	-
Return on assets ratio	After-tax profit / Average total assets	0.06	0.03
After-tax profit		2,310,432	917,157
Average total assets		36,163,047	31,054,733
Return on equity ratio	After-tax profit / Total equity	0.11	0.05
After-tax profit		2,310,432	917,157
Total equity		20,426,622	18,116,190
Net profit margin	After-tax profit / Total revenues	0.14	0.07
After-tax profit		2,310,432	917,157
Total revenues		16,326,149	13,420,522

**REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE
SECURITIES AND EXCHANGE COMMISSION**

The Stockholders and Board of Directors
Fubon Insurance Broker (Philippines) Corporation
2nd Floor Pioneer House
108 Paseo de Roxas Makati City

We have audited the accompanying financial statements of Fubon Insurance Broker (Philippines) Corporation (the Company) as at and for the year ended December 31, 2019, on which we have rendered our report dated April 2, 2020.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has one stockholder owning 100 or more shares as at December 31, 2019.

REYES TACANDONG & Co.


PAMELA ANN P. ESCUADRO

Partner

CPA Certificate No. 128829

Tax Identification No. 216-321-918-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 1471-AR-1 Group A

Valid until June 4, 2021

IC Accreditation No. SP-2018-003-O

Valid until March 7, 2021

BIR Accreditation No. 08-005144-013-2020

Valid until January 1, 2023

PTR No. 8116481

Issued January 6, 2020, Makati City

April 2, 2020
Makati City, Metro Manila

