

14 August 2013

PHILIPPINE STOCK EXCHANGE, INC.
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: **Ms. Janet A. Encarnacion**
Head-Disclosure Department

Re: Quarterly Report for Quarter ended 30 June 2013

Gentlemen:

Please be advised that Vantage Equities, Inc. filed the attached Quarterly Report for Quarter ended 30 June 2013 (SEC Form 17-Q) with the Securities and Exchange Commission today.

Thank you for your kind attention.

Very truly yours,


ADRIAN FRANCIS S. BUSTOS
Assistant Corporate Secretary

COVER SHEET

AS0920-07059

SEC Registration Number

VANTAGE EQUITIES, INC. (Formerly i
Vantage Corporation) AND SUBSIDIARIES

(Fund's Full Name)

2703A East Tower, PSE Centre, Exchange
Road, Ortigas, Center, Pasig
City

(Business Address: No. Street City/Town/Province)

MARIBEL E. BERE

(Contact Person)

620-2305

(Fund Telephone Number)

12 31
Month Day
(Calendar Year)

17-Q
(Form Type)

03 31 13
Month Day Year
Period Ended

INVESTMENT HOLDING

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b)
THEREUNDER**

1. For the quarterly period ended June 30, 2013
2. SEC Identification Number AS-092-07059
3. BIR Tax Identification No. 002-010-620
4. Exact name of registrant as specified in its charter.
VANTAGE EQUITIES, INC.

5. Province, Country or other jurisdiction of Incorporation or Organization:
Philippines

6. (SEC Use Only)
Industry Classification Code

Address of Principal Office:

Unit 2703A East Tower, Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center, Pasig City



7. Registrant's telephone number, including area code: (632) 689-8094
8. Former name, former address, and former fiscal year, if changed since last report
Not applicable

9. Securities registered pursuant to Sections 4 and 8 of the RSA
- | | |
|--------------------------------------|--|
| Title of Each Class | Number of Shares of |
| Common Stock, P1.00 par value | Common Stock Outstanding |
| | 2,100,535,133 |
| | (Net of Treasury Shares of 134,855,500) |

10. Are any or all of these securities listed on the Philippine Stock Exchange.
Yes No

11. Check whether the registrant:

a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes No

b) has been subject to such filing requirements for the past 90 days.
Yes No

SIGNATURES


Pursuant to the requirements of the Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereto duly authorized, in the City of Pasig on August 14, 2013.

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
Issuer

By:



EDMUNDO MARCO P. BUNYI, JR.
President & COO



MARIBEL E. BERE
Group Comptroller

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The Consolidated Financial Statements are filed as part of this Form 17-Q.

Item 2. Management's Discussion and Analysis or Plan of Operations

Financial Highlights

| In Millions | Unaudited | Audited | |
|--------------------------|---------------|-------------------|-------------------|
| | June 30, 2013 | December 31, 2012 | December 31, 2011 |
| Balance Sheet | | | |
| Assets | 8,330 | 7,285 | 5,842 |
| Liabilities | 1,178 | 1,193 | 309 |
| Stockholders' Equity | 7,152 | 6,632 | 5,533 |
| Book Value per Share | 3.40 | 2.97 | 2.63 |
| Income Statement | | | |
| Revenues | 782 | 1,059 | 1,053 |
| Expenses | 290 | 524 | 512 |
| Other Income / (Charges) | 17 | 35 | (11) |
| Net Income | 509 | 570 | 530 |
| Earnings per Share | 0.24 | 0.26 | 0.25 |

Results of Operations for the Quarter Ended June 30, 2013

The Company posted a consolidated net income of Php509.0 million as of June 30, 2013. It went up by 150% compared to same period last year of Php203 million. On a per share basis, the company earned 0.24 centavos as of June 30, 2013 compared to .26 centavos as of December 31, 2012.

Financial markets in emerging countries corrected in 2Q13 after US Fed Chairman Ben Bernanke said on May 22 that quantitative easing (QE) might be tapered in the next few meetings. The expectation of a gradual shift from a monetary easing to a monetary tightening policy regime has resulted to a stronger US dollar and a sell-off in bonds of different countries. As a result, the S&P 500 registered returns of 2.4% in 2Q13 while the MSCI World Index remained flat at -0.1% during the same period.

This correction was most evident in emerging markets after investors took some risk off the table. The 30-company Philippine index (PHISIX) lost 5.6% in 2Q13 while the Company's equity portfolio lost 7.6% during the same period.

Meanwhile, the local fixed income market was not spared from the global sell-off in bonds and resulted to 10-year and 20-year benchmark yields increasing by about 49 to 75 bps in the second quarter. The Company's fixed income portfolio lost 7.7% in 2Q13 while the benchmark HSBC Local Bond Index lost 7.3% during the same period.

The following summarizes the operating results of the Company's subsidiaries:

eBusiness Services, Inc. ("eBiz")

eBiz continue to achieve record money transfer volume, hitting close to 1.4 million transactions worth in excess of USD 300 million just for the second quarter of 2013. Because of strong transaction growth, money transfer revenue in 2Q13 rose 2% YoY to Php 83 million. The company's foreign exchange operations and other products likewise

registered strong growth of 72% YoY to Php 30 million. Meanwhile, operating expenses fell 2% YoY to Php 71 million as a result of the company's continued efforts to rationalize costs and improve operating efficiencies. After depreciation and taxes, eBiz posted a net income of Php 20.8 million for the second quarter of 2013, up 34% from Php 15.6 million same period last year.

Yehey! Corporation ("Yehey")

Total revenues declined by 28% which is significantly caused by recognized income of Php2.72M from sale of 50% ownership in MCI considered as investment in joint venture and Php2.4M recovery of credit losses in 2012, while in 2013 only Php0.3M was recorded as recovery from credit losses.

However, Cost of services decreased by 26% driven by reduction in commission expense, salaries and benefits and depreciation expense. General and administrative expenses reduced by 33% due to lesser utilities expense and professional fees. hence net income dropped-off only by 31%.

As such, Net Income of the Company is P2.6 million in June 2013 from 3.8 million in June 2012.

Philequity Management, Inc. ("PEMI")

Net revenues as of June 30, 2013 climbed to Php 79 million compared to Php 43 million in June 30, 2012. Meanwhile, investors took the market correction as an opportunity to add to their investments. The funds that the company manages experienced a substantial increase in net subscriptions to P824 million in 2Q13 from Php 24 million in 2Q12. Total assets under management likewise increased 74% as of end-June 2013 to Php 9.9 billion from Php 5.7 billion as of end-June 2012.

Expenses for the first six months of the year were 46% higher versus last year. YTD net profit increased 124% to Php 46 million from Php 24 million last year.

Key Performance Indicators

The Company sets certain performance measures to gauge its operating performance periodically to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators.

| | June 30, 2013 | December 31, 2012 |
|---------------------------------------|---------------|-------------------|
| Current Ratio ¹ | 245.49% | 231.25% |
| Assets to Equity ² | 116.48% | 117.99% |
| Liabilities to Equity ³ | 16.48% | 17.99% |
| Return on Average Assets ⁴ | 6.30% | 2.98% |
| Return on Average Equity ⁵ | 7.39% | 3.34% |

The manner by which the Company calculates the above performance indicators for is as follows:

| <i>Formula</i> | |
|----------------|--------------------------------------|
| 1 | Current Assets / Current Liabilities |
| 2 | Total Assets / Total Equity |
| 3 | Total Liabilities / Total Equity |
| 4 | Net Income / Average Total Assets |
| 5 | Net Income / Average Total Equity |

Causes for any material changes (+/- 5% or more) in the financial statements

Income Statement items – three month period ending 30-June-2013 versus 30-June-2012

7.83% decrease in internet sales and services

Mainly due to lower media sales, web development and DPR revenue.

94.31% increase in money changing and foreign exchange

Mainly due to higher value of dollar.

9.93% increase in interest income

Mainly due to additional fixed income securities.

88.19% increase in mutual fund income

Mainly due to increase in assets under administration.

341.82% increase in trading gains(loss)

Mainly due to high market price of investments.

356.67% increase in interest and bank charges

Primarily due to increase US dollar denominated loans from banks

54.32% decrease in other revenues

Mostly caused by lesser dividend income

1029.39% increase in other income

Due to income from disposal of property of Parent

Balance Sheet items – June, 2013 versus end 2012

30% increase in cash and cash equivalents

Caused by higher short term investments

86% decrease in Financial Assets at Fair Value Through Profit and Loss (FVPL)

Primarily due to disposals of FVPL.

309% increase in prepaid taxes and other current assets

Largely due to creditable withholding taxes

17% decrease in accounts payable and other current liabilities

Decrease in accrued expenses

PART II – OTHER INFORMATION

PFRS 9 – Financial Instruments: Recognition and Measurement

After consideration of the result of its impact evaluation, using the outstanding balances of financial statements as of 31 December 2012, the company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2013 annual financial reporting;

It shall conduct in early 2014 another impact evaluation using the outstanding balances of financial statements as of 31 December 2013.

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Unaudited June 30, 2013 | Audited 31-Dec-12 |
|--|----------------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 5) | 1,783,985,722 | 1,369,141,777 |
| Receivables – net (Note 6) | 989,906,865 | 912,499,486 |
| Financial Assets at Fair Value through profit or loss (FVPL) (Note 7) | 64,029,950 | 450,158,034 |
| Prepaid taxes and other current assets (Note 9) | 35,638,688 | 8,716,170 |
| Total Current Assets | 2,873,561,225 | 2,740,515,467 |
| Noncurrent Assets | | |
| Loans and receivables - noncurrent portion | - | 150,000,000 |
| Available-for-sale securities (Note 8) | 5,383,206,577 | 4,856,579,928 |
| Investment in associates & JV- net | 119,228 | 119,228 |
| Deferred Tax Assets | 3,794,524 | 3,819,683 |
| Goodwill (Note 10) | 3,654,985 | 3,654,985 |
| Property and equipment – net (Note 10) | 41,449,096 | 45,910,550 |
| Other noncurrent assets - net (Note 11) | 24,343,664 | 24,538,270 |
| Total Noncurrent Assets | 5,456,568,074 | 5,084,622,644 |
| | 8,330,129,299 | 7,825,138,111 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other current liabilities (Note 12) | 246,863,024 | 298,281,535 |
| Dividends Payable- net of tax | - | - |
| Notes Payable | 879,120,000 | 874,775,500 |
| Income tax payable | 44,552,122 | 12,039,746 |
| Current Portion of long-term debt | - | - |
| Total Current Liabilities | 1,170,535,146 | 1,185,096,781 |
| Noncurrent Liabilities | | |
| Deferred tax liabilities | 530,316 | 415,620 |
| Accrued Retirement Costs | 7,371,013 | 7,371,013 |
| Asset Retirement Obligation | - | - |
| Total Noncurrent Liabilities | 7,901,329 | 7,786,633 |
| | 1,178,436,475 | 1,192,883,414 |
| Stockholders' Equity | | |
| Equity attributable to equity holders of the parent: | | |
| Capital stock – P1 par value | | |
| Authorized – 2,250,000,000 | | |
| Issued – 2,235,390,633 | 2,235,390,633 | 2,235,390,633 |
| Stock Issuance Cost of a subsidiary | - | - |
| Cumulative net unrealized gain on change in fair value of available-for-sale investments | 1,094,177,410 | 1,083,273,387 |
| Retained earnings | 3,832,588,793 | 3,347,493,258 |
| Treasury Stocks | (188,520,838) | (188,520,838) |
| Minority Interest | 178,056,826 | 154,618,257 |
| Total Stockholders' Equity | 7,151,692,824 | 6,632,254,697 |
| | 8,330,129,299 | 7,825,138,111 |

See accompanying Notes to Financial Statements

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| | For the Period Ended (Unaudited) | | For the Quarter Ended (Unaudited) | |
|--|----------------------------------|--------------------|-----------------------------------|--------------------|
| | June 30, 2013 | June 30, 2012 | June 30, 2013 | June 30, 2012 |
| REVENUES | | | | |
| Money transfer service | 218,675,385 | 191,029,632 | 115,082,599 | 85,783,489 |
| Equity in net earnings of associates | - | - | - | - |
| Internet service and sales | 8,315,647 | 9,021,638 | 7,016,723 | 3,231,135 |
| Money changing and foreign exchange | 51,621,993 | 26,567,386 | 28,250,653 | 14,779,304 |
| Interest income | 67,825,517 | 61,696,461 | 30,495,055 | 30,744,524 |
| Trading Gain/Loss | 338,349,313 | 76,579,953 | 76,805,946 | 29,220,361 |
| Income from Mutual Fund | 76,466,430 | 40,632,116 | 39,939,535 | 21,151,533 |
| Others | 20,928,813 | 45,928,724 | 15,856,761 | 32,077,191 |
| | 782,183,098 | 451,455,910 | 313,447,272 | 216,987,537 |
| EXPENSES | | | | |
| General and administrative expenses (Note 13) | 160,752,460 | 178,252,712 | 82,235,955 | 96,086,350 |
| Cost of services and sales | 76,837,429 | 43,676,869 | 41,380,923 | 9,176,366 |
| Depreciation and amortization | 6,705,654 | 8,436,511 | 2,784,194 | 4,138,303 |
| | 244,295,543 | 230,366,092 | 126,401,072 | 109,401,019 |
| INCOME FROM OPERATIONS | 537,887,555 | 221,089,818 | 187,046,200 | 107,586,518 |
| OTHER INCOME (CHARGES) | | | | |
| Interest and bank charges – net | (13,382,073) | (2,930,356) | (4,162,856) | (1,954,843) |
| Others | 29,932,856 | 2,650,359 | 26,745,232 | 2,718,643 |
| | 16,550,783 | (279,997) | 22,582,376 | 763,800 |
| INCOME BEFORE EXTRA-ORDINARY | | | | |
| Income/Expense | 554,438,338 | 220,809,821 | 209,628,576 | 108,350,318 |
| Extra-Ordinary Income/(Exp.) | - | - | - | - |
| INCOME BEFORE INCOME TAX | 554,438,338 | 220,809,821 | 209,628,576 | 108,350,318 |
| PROVISION FOR INCOME TAX | | | | |
| Current | 45,422,057 | 17,429,244 | 38,989,629 | 7,280,149 |
| Deferred | - | - | - | - |
| | 45,422,057 | 17,429,244 | 38,989,629 | 7,280,149 |
| NET INCOME (LOSS) | 509,016,281 | 203,380,577 | 170,638,947 | 101,070,169 |
| Attributable to: | | | | |
| Equity holders of the parent (Note 18) | 485,577,712 | 192,074,877 | 162,133,248 | 96,689,410 |
| Minority interests | 23,438,569 | 11,305,700 | 8,505,699 | 4,380,759 |
| | 509,016,281 | 203,380,577 | 170,638,947 | 101,070,169 |
| Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent | 0.24 | 0.10 | 0.08 | 0.05 |

See accompanying Notes to Financial Statements

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Semester Ended (Unaudited)
June 30, 2013 June 30, 2012

| | | |
|--|---------------|---------------|
| CAPITAL STOCK - 1 par value | | |
| Authorized - 2,250,000,000 shares | | |
| Issued - 2,235,390,633 shares | | |
| Balance at beginning of year | 2,235,390,633 | 2,235,390,633 |
| Stock issuance cost of a subsidiary | - | (3,209,910) |
| Stock dividends issued | - | - |
| Balance at end of period | 2,235,390,633 | 2,232,180,723 |
| CUMULATIVE NET UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF AVAILABLE-FOR-SALE SECURITIES | | |
| Balance at beginning of year | 1,083,273,387 | 558,384,899 |
| Unrealized Gain/(loss) | 10,904,023 | 430,273,690 |
| Balance at end of period | 1,094,177,410 | 988,658,589 |
| RETAINED EARNINGS (DEFICIT) | | |
| Balance at beginning of year | 3,347,011,082 | 2,835,797,808 |
| Net income (loss) | 485,577,711 | 176,493,321 |
| Stock Dividend | - | - |
| Balance at end of period | 3,832,588,793 | 3,012,291,129 |
| TREASURY SHARES (Note 15) | (188,520,838) | (188,520,838) |
| MINORITY INTEREST | | |
| Balance at beginning of year | 154,618,257 | 129,935,635 |
| Minority share in the capital stock from issuance of property dividend | | - |
| Total income and expenses recognized during the period | 23,438,569 | 12,836,710 |
| Balance at end of period | 178,056,826 | 142,772,345 |
| | 7,151,692,824 | 6,187,381,948 |

See accompanying Notes to Financial Statements

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Semester Ended (Unaudited) | |
|--|---|----------------------|
| | June 30, 2013 | June 30, 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income (loss) before Tax | 554,438,338 | 220,809,821 |
| Depreciation and amortization | 6,705,654 | 8,436,511 |
| Interest expense | 13,382,073 | 975,513 |
| Dividend income | (13,786,741) | (6,145,863) |
| Interest income | (67,825,517) | (30,951,937) |
| Operating income before working capital changes | 492,913,807 | 193,124,045 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase): | | |
| Receivable | 71,559,420 | 259,567,211 |
| Prepaid expenses and other current assets | (26,922,518) | (4,369,822) |
| Increase (decrease) in accounts payable and other current liabilities | (64,303,035) | (108,918,589) |
| Net cash provided by (used for) operations | 473,247,674 | 339,402,845 |
| Interest paid | (13,382,073) | (975,513) |
| Income tax paid | | |
| Dividends received | 13,786,741 | 6,145,863 |
| Interest received | 68,858,718 | 30,951,937 |
| Net cash provided by (used in) operating activities | 542,511,060 | 375,525,132 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease (increase) in: | | |
| Investment and advances | (1) | 56750 |
| Property and equipment | (2,244,198) | (3,267,564) |
| Decrease (increase) in AFS/HTM | (140,498,565) | (303,972,437) |
| Increase (decrease) in net unrealized gain on AFS | 10,904,023 | 346,405,045 |
| Decrease (increase in) other assets | 309,303 | (3,000,962) |
| Net cash provided by (used in) investing activities | (131,529,438) | 36,220,832 |
| CASH FLOWS FROM FINANCING ACTIVITY | | |
| Increase (decrease) in minority interest | (482,176) | 13,225,793 |
| Acquisition of Treasury Shares | - | - |
| Payment of loans | 4,344,499 | 48,499,601 |
| Cash used in financing activities | 3,862,323 | 61,725,394 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 414,843,945 | 473,471,358 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 1,369,141,777 | 540,411,971 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 1,783,985,722 | 1,013,883,329 |

See accompanying Notes to Financial Statements

VANTAGE EQUITIES, INC.
(Formerly iVantage Corporation)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

Vantage Equities, Inc. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on October 20, 1992. The primary business of the Parent Company is to invest in, acquire by purchase, exchange, assignment or otherwise; or to hold, own, use for investment or otherwise shares of the capital stock, bonds, debentures, promissory notes, or other securities or obligations created, negotiated or issued by any corporation, association or other entities, whether foreign or domestic, including but not limited to information technology companies and related ventures, holding companies and companies engaged in financial services, investments and real property development. Its investments consist of shares in: (a) entities involved in inward remittances and financing services; (b) an Information Technology (IT)-based entity; and (c) an entity involved in management of mutual funds.

On April 8, 2008, the SEC approved the Parent Company's change of corporate name from iVantage Corporation to Vantage Equities, Inc.

The Parent Company's shares are publicly traded in the Philippine Stock Exchange (PSE).

The registered office address of the Parent Company is 2703 East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City.

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries (collectively referred to as the "Group"):

| Name of Subsidiaries | Place of Incorporation | Percentage of Ownership | |
|--|------------------------|-------------------------|--------|
| | | 2Q2013 | 2012 |
| e-Business Services, Inc. (e-Business) | Philippines | 100.00 | 100.00 |
| eBIZ Financial Services, Inc. (eBIZ Financial)* | Philippines | 100.00 | 100.00 |
| iCurrencies, Inc. (iCurrencies) | Philippines | 100.00 | 100.00 |
| Philequity Balanced Fund, Inc. | Philippines | 100.00 | 100.00 |
| Philequity Foreign Currency Fixed Income Fund, Inc. | Philippines | 100.00 | 100.00 |
| Philequity Dividend Yield Fund, Inc. (PDYF) | Philippines | 100.00 | 100.00 |
| Yehey! Corporation (Yehey!) | Philippines | 66.95 | 66.97 |
| Philequity Management, Inc. (PEMI) | Philippines | 51.00 | 51.00 |

* Indirectly owned through e-Business

The Parent Company is the ultimate parent of the Group.

e-Business

e-Business is involved in fund transfer and remittance services, both domestic and abroad, of any form or kind of currencies or monies, as well as in conducting money exchange transactions as may be allowed by law and other allied activities relative thereto. e-Business has an existing Representation Agreement (Agreement) with Western Union Financial Services, Inc. (Western

Union) covering its fund transfer and remittance services for a period of seven years from September 1, 2007 to August 31, 2014. e-Business shall receive remuneration for the services provided to Western Union in accordance with the terms stipulated in the Agreement.

eBiz Financial

eBiz Financial is wholly owned by e-Business. eBiz Financial was incorporated on April 11, 2005 and started commercial operations on May 9, 2005. eBiz Financial is engaged in financing business.

iCurrencies

iCurrencies, Inc. was incorporated on February 3, 2000 and started commercial operations on May 31, 2000. iCurrencies is organized primarily to engage in the business of buying and selling of foreign currencies.

In May 2001, the iCurrencies effectively stopped its business of buying and selling currencies as a result of Bangko Sentral ng Pilipinas Circular No. 264, issued on October 26, 2000. Among others, the new circular required additional documentation for sale of foreign currencies and required Foreign Exchange Corporations (FxCORPs) to have a minimum paid-up capital of ₱50.0 million.

The Circular effectively aligned the regulations under which FxCORPs are to operate to that of banks. To avoid duplication and direct competition with its previous major stockholder, iCurrencies decided to stop its business of buying and selling foreign currencies. The stockholders likewise decided not to increase its paid-up capital.

In the meantime, iCurrencies is sustained by income on its investments and interest income on its funds while awaiting for regulatory changes.

PBF

PBF was incorporated in the Philippines, and was registered with the Securities and Exchange Commission (SEC) on May 6, 2008 under the Philippine Investment Company Act (ICA) (Republic Act 2629) as an open-end mutual fund company. PBF is engaged in selling its capital to the public and investing the proceeds in diversified portfolio of peso-denominated fixed-income and equity securities. As of December 31, 2012, PBF has not yet launched its capital shares to the public.

PFCFIF

PFCFIF incorporated in the Philippines, and was registered with the Securities and Exchange Commission (SEC) on April 10, 2008 under the Philippine ICA as an open-end mutual fund company. PFCFIF is engaged in selling its capital to the public and investing the proceeds in diversified portfolio of foreign currency denominated fixed-income securities. As of December 31, 2012, PFCFIF has not yet launched its capital shares to the public.

PDYF

PDYF was incorporated in the Philippines, and was registered with Securities and Exchange Commission (SEC) on August 2, 2012 under Philippine ICA as an open-end investment company. PDYF is engaged in selling its capital to the public and investing the proceeds in diversified portfolio of diversified portfolio of equity securities. As of December 31, 2012, PDYF has not yet launched its capital shares to the public.

Yehey!

Yehey! is engaged in the business of internet online related products relating to database search engine, such as, but not limited to, conceptualizing, designing, illustrating, processing and editing web sites. It is also engaged in pre-production and post-production work on web sites in internet

and sell and market said products in the form of advertising of finished products in the domestic or export market.

PEMI

PEMI was incorporated in the Philippines and is primarily engaged in management of mutual funds.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments, which are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency, and all values are rounded to the nearest peso unit, except when otherwise indicated.

Statement of Compliance

The accompanying consolidated financial statements are prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

Subsidiaries are all entities over which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

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

Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. Control is achieved when the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Consolidation of subsidiaries ceases when control is transferred out of the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition up to the date of disposal, as appropriate.

When a change in ownership interest in a subsidiary occurs, which results in loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related other comprehensive income recorded in equity and recycle the same to profit or loss or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in profit or loss.

In a separate or parent company financial statements, investments in subsidiaries are carried at cost, less accumulated impairment in value. Dividends earned on these investments are recognized in the Parent Company's separate statement of income as declared by the respective

BOD of the investees.

Non-Controlling Interest

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that does not result in a loss of control are accounted for as equity transaction, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year, except for the following amended standards which were adopted as of January 1, 2012. The following amended standards did not have any impact on the accounting policies, financial position or performance of the Group:

PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

PAS 12, Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, Investment Property, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

Significant Accounting Policies

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency-denominated monetary assets and liabilities are translated in Philippine peso based on the Philippine Dealing system (PDS) closing rate prevailing at end of year and foreign currency-denominated income and expenses, at PDS weighted average rate for the year. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

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

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Receivables, accounts payable and other noncurrent liabilities, bonds payable and long term debt are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. Financial liabilities are classified as either derivative liabilities, financial liabilities at FVPL or financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of June 30, 2013 and December 31, 2012, the Group does not have HTM investments.

Determination of fair value

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques that include the use of mathematical models. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates.

'Day 1' difference

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

Financial assets at FVPL represent securities which are held for trading and free standing derivative (currency forward contract). Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' in the consolidated statement of income, respectively, while dividend income is recorded in 'Dividends' in the consolidated statement of income according to the terms of the contract, or when the right to receive payment has been established.

Financial instruments at FVPL

Financial instruments at FVPL include financial assets and financial liabilities that are:

- acquired and held for trading purposes
- designated upon initial recognition as at FVPL; and
- stand-alone or bifurcated embedded derivative financial instruments not designated as effective hedging instruments

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purposes of selling and repurchasing in the near term.

Financial assets and financial liabilities may be designated by management on initial recognition at FVPL when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Subsequent changes in fair value are recognized in the consolidated statement of income. Interest earned or dividends received are recorded in interest income or dividend income, respectively. Interest incurred is recorded as interest expense in the consolidated statement of income.

Derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and

- the hybrid or combined instrument is not measured at fair value with fair value changes charged through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contracts that significantly modifies the cash flows that would otherwise be required.

The Group bifurcated embedded derivatives as of June 30, 2013 and December 31, 2012 pertaining to Unquoted debt securities under 'Loans and receivables'. The value of the bifurcated embedded derivatives is not significant.

As of June 30, 2013 and December 31, 2012, the Company's financial assets at FVPL comprise of investments in corporate bonds and currency forward contracts.

Loans and receivables

This accounting policy relates to the consolidated statement of financial position captions 'Cash and cash equivalents', 'Loans and receivables' and 'Refundable deposits' (included under Prepaid expenses and other current assets). These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Other financial assets held for trading' or designated as 'AFS investments' or 'Financial assets designated at FVPL'.

After initial measurement, loans and receivables are subsequently measured at cost or amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the consolidated statement of income.

AFS investments

AFS investments are nonderivative financial assets which are designated as such or do not qualify to be classified as designated at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from the reported earnings and are included in the consolidated statement of comprehensive income as 'Net unrealized gain on AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in consolidated statement of comprehensive income is recognized in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS debt investments are reported in the consolidated statement of income as 'Interest income' using the EIR. Dividends earned on holding AFS equity investments are recognized in the consolidated statement of income as 'Dividends' when the right to receive payment has been established. The losses arising from impairment of such investment are recognized as 'Provision for credit and impairment losses' in the consolidated statement of income.

Financial Liabilities

Financial liabilities are classified as at FVPL when the financial liability is either held for trading or it is designated as at FVPL.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Management may designate a financial liability at FVPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value of financial instruments are recorded in Mark-to-market gain (loss) on financial assets at FVPL in the consolidated statement of income. Interests incurred are recorded in Interest expense in the statement of income using the effective interest method.

Derecognition of Financial Assets and Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risk and rewards of the asset but has transferred the control over the asset.

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where 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 the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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, therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of Financial Assets

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

Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost, which includes cash and cash equivalents, receivables and deposits, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged against the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit and impairment losses' in the consolidated statement of income.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of

the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

AFS investments

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the consolidated statement of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and short-term investments. Cash equivalents are short-term, highly liquid investments that are readily convertible to a known amount of cash with original maturities of three months or less from the dates of placement and are subject to an insignificant risk of changes in value.

Investments in associate and joint venture

Investment in associate

Associates are entities which the Group has significant influence but not control, generally accompanying a shareholding of between 20.00% and 50.00% of the voting rights. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying value of the investment and is not amortized. The Group's share in an associate's post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associate's equity reserves is recognized directly in consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Group and an associate are eliminated to the extent of the interest in the associate.

Investment in joint venture

Investment in joint venture is accounted for under the equity method of accounting. The investment in joint venture is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the share of net assets of the joint venture, less any allowance for impairment losses.

Investments in joint ventures in the Group's financial statements are carried at cost less any allowance for impairment losses.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any costs directly attributable to bringing the property and equipment to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the year in which such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

The cost of an item of property and equipment also includes costs of dismantlement, removal or restoration and the related obligation that the Group incurs at the end of the useful life of property and equipment.

When each major repairs and maintenance is performed, its cost is recognized in the carrying amount of the item of property and equipment as a replacement if the recognition criteria are satisfied. Such costs are capitalized and amortized over the next major repairs and maintenance activity.

Depreciation and amortization are computed using the straight-line basis over the estimated useful lives of the property and equipment as follows:

| | |
|------------------------------|---|
| Furniture and fixtures | 2-10 years |
| Office improvements | 10 years |
| Transportation equipment | 5 years |
| Office condominium | 20 years |
| Server and network equipment | 3 years |
| Leasehold improvements | 5 years or term of lease, whichever period is shorter |

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation are credited or charged to consolidated statement of income.

When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation, amortization and any impairment in value are eliminated from the accounts and any resulting gain or loss is credited or charged to consolidated statement of income.

Software and Website

Development costs of software and website included under "Other noncurrent assets" account in the consolidated statement of financial position are capitalized and treated as intangible assets because their costs are not an integral part of the related hardware. Amortization is computed using the straight-line method over their estimated useful life of 3 years for software and 2 years for website.

Impairment of Property and Equipment, Software and Investment in Associate and Joint Venture

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income in the expense category consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Parent Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

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

Revenue Recognition

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Commission income

This represents the commission received by the Group from Western Union. The Group receives commission from Western Union for every advance dollar remittance service provided by the former for the latter. Revenue is recognized the remittance service has been rendered which is when Western Union acknowledges the transaction.

Advertising, Web Development and Internet Service

Revenue from advertising and web development is recognized based on Percentage of Completion Method. The stage of completion is assessed by reference to surveys of the work performed. Revenue from internet service is recognized at the time services are rendered.

Money Changing Gain

Money changing gains are related to the Group's retail foreign exchange operations in the branches. The Group provides money changing services to its clients which includes buying and selling of foreign currencies. Revenue is recognized when the service is rendered.

Share in Foreign Exchange Differential

Income from foreign exchange differential is recognized when service is rendered and foreign currency denominated cash is converted into Philippine peso.

Interest Income

Revenue is recognized as the interest accrues, using the effective interest rate.

Dividend Income

Revenue is recognized when the right to receive payment is established.

Service Income

Service income is recognized when the services are rendered.

Management fee

Revenue is recognized as services are rendered and in accordance with the management and distribution agreement.

Gain on Sale of AFS Investments

Revenue is recognized on trade date upon receipt of confirmation of sale of investments from counterparties.

Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A re-assessment is made after inception of the lease only if one of the following applies:

- (a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (d) There is a substantial change to the asset.

Where a re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the re-assessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Group as a Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the term of the lease agreement.

Retirement Costs

e-Business has funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The Parent Company and Yehey! have unfunded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The obligation and costs of retirement benefits are actuarially computed by an independent actuary using projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting period exceed 10.00% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net

actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Income Taxes

Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amounts expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred Tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences and carryforward benefit of unused net operating loss carry over (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused NOLCO and excess of MCIT over RCIT, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

Deferred tax relating to items recognized directly in other comprehensive income and not in the consolidated statement of income.

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

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

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital paid-in excess of par value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital paid-in excess of par value' account. If the 'Capital paid-in excess of par value' is not sufficient, the excess is charged against the 'Retained earnings'.

When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

'Retained earnings' represents accumulated earnings of the Group less dividends declared.

Basic/Diluted Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net income (loss) by the weighted average number of shares outstanding during the year with retroactive adjustments for any stock split and stock dividends declared.

Diluted EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of any dilutive potential common shares. As of June 30, 2013 and December 31, 2012, the Parent Company does not have dilutive potential common shares.

Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Asset Retirement Obligation

The Group recognizes provision arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of having used the asset during a particular period for purposes other than to produce inventories during that period. A corresponding asset is recognized as part of property and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pretax rate that reflects the risks specific to the decommissioning liability.

The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of property and equipment. The amount deducted from the cost of property and equipment shall not exceed its carrying amount.

Contingent Liabilities and Contingent Assets

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

Events after the Reporting Period

Events after reporting date that provide additional information about the Group's financial position at the reporting date (adjusting events), if any, are reflected in the consolidated financial

statements. Events that are not adjusting events, if any, are disclosed in the notes to consolidated financial statements, when material.

Dividends on common shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company and its subsidiaries while stock dividends are deducted from equity when approved by the BOD and shareholders of the Parent Company. Dividends for the year that are approved after the consolidated statement of financial position date are dealt with as an event after the consolidated statement of financial position date.

Segment reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Group's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Future Changes in Accounting Policies

Standards issued but not yet effective up to date of the consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective. Except when otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

New and amended standards

Effective in 2013

- PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendment affects disclosures only and has no impact on the Group's financial position and performance.

- PFRS 10, *Consolidated Financial Statements*
This standard becomes effective for annual periods beginning on or after January 1, 2013. It

replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) - 12, *Consolidation - Special Purpose Entities*. It establishes a single control model that applies to all entities including special purpose entities. The changes introduced by the standard will require management to exercise significant judgment to determine which entities are controlled, and therefore required to be consolidated by a parent, compared with the requirements that were in PAS 27. The application of this new standard will not impact the financial position or performance of the Group.

- **PFRS 11, *Joint Arrangements***
This standard becomes effective for annual periods beginning on or after January 1, 2013. It replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. It removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position or performance of the Group.
- **PFRS 12, *Disclosure of Involvement with Other Entities***
This standard becomes effective for annual periods beginning on or after January 1, 2013. It includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.
- **PFRS 13, *Fair Value Measurement***
This standard becomes effective for annual periods beginning on or after January 1, 2013. It establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.
- **PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income***
The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments to the standard change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and there is no impact on the Group's financial position or performance.
- **PAS 19, *Employee Benefits* (Revised)**
The amendment becomes effective for annual periods beginning on or after January 1, 2013. Amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The Company obtained the services of an external actuary to compute the impact to the financial statements upon adoption of the standard. The effects are detailed below:

| | As at 31 December 2012 | As at 1 January 2012 |
|---|------------------------------|-------------------------|
| Increase (decrease) in: | | |
| <u>Consolidated statements of financial position</u> | | |
| Retirement payable | (P9,594,787) | (P9,513,481) |
| Deferred tax asset | 794,778 | 483,992 |
| Other comprehensive income | 1,218,702 | (19,642) |
| Retained earnings | 9,170,863 | 10,017,115 |
| | <u>2012</u> | |
| <u>Consolidated statement of comprehensive income</u> | | |
| Retirement expense | P1,157,038 | |
| Provision for deferred tax | 310,788 | |
| Net income | 846,252 | |
| Other comprehensive income | 1,238,344 | |

- PAS 27, *Separate Financial Statements* (as revised in 2011)**
 The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains in the standard is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the Group.
- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)**
 The amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, the standard has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine***
 The Interpretation is effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. This new interpretation is not relevant to the Group.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities***
 The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting

criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance.

Effective in 2015

- **PFRS 9, *Financial Instruments: Classification and Measurement***
The standard is effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 may have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.
- **Philippine Interpretation IFRIC-15, *Agreement for the Construction of Real Estate***
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Securities and Exchange Commission and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The application of this interpretation will not impact the financial position or performance of the Group.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

PFRS 1, First-time Adoption of PFRS – Borrowing Costs

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, Borrowing Costs. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, Presentation of Financial Statements - Clarification of the requirements for comparative information

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16, Property, Plant and Equipment - Classification of servicing equipment

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

a) *Determination of Functional Currency*

The Group has determined its functional currency to be the Philippine peso. It is the currency

of the primary economic environment in which the Group operates and the currency that mainly influences the income and expenses.

b) *Operating Lease Commitments - Group as a Lessee*

The Group has entered into a lease for some of its office spaces and branches. The Group has determined that it has not acquired all the significant risks and rewards of ownership of the leased properties because of the following factors: (a) the Group will not acquire the ownership of the leased asset upon termination of the lease; (b) the Group has no option to purchase the asset at a price that is sufficiently lower than the fair value at the date of the option; and (c) the lease term is only for a period of one year, renewable annually. Accordingly, the Group accounts for the lease as operating leases.

c) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated financial instruments (see Note 5).

d) *Financial assets not quoted in an active market*

The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

e) *Determination of whether the Group is acting as a principal or an agent*

The Group assesses its revenue arrangements against the following criteria to determine whether it is acting as a principal or an agent:

- whether the Group has primary responsibility for providing the goods and services;
- whether the Group has inventory risk;
- whether the Group has discretion in establishing prices; and
- whether the Group bears the credit risk.

If the Group has determined it is acting as a principal, revenue is recognized on a gross basis with the amount remitted to the other party being accounted for as part of costs and expenses.

If the Group has determined it is acting as an agent, only the net amount retained is recognized as revenue.

The Group assessed its revenue arrangements and concluded that it is acting as principal in some arrangements and as an agent in other arrangements.

Estimates

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

a) *Fair value of financial instruments*

PFRS requires that certain financial assets and liabilities be carried and disclosed at fair value, which requires the use of accounting estimates and judgments. While significant components of fair value measurement are determined using verifiable objective evidence (i.e. foreign exchange rates, interest rates, volatility rate), the timing and amount of changes in fair value

would differ if the Group utilized a different valuation methodology. Any change in the assumptions could affect the fair values of these financial assets and liabilities.

As of June 30, 2013 and December 31, 2011, the fair values of financial assets and financial liabilities are disclosed in Note 7.

b) *Allowance for credit losses*

The Group maintains an allowance for credit losses at a level considered adequate to provide for potential uncollectible receivables. The level of allowance is evaluated by the Group on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers, average age of accounts and collection experience. The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment losses. The review is accomplished using specific assessment and collective approaches. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies.

As of June 30, 2013 and December 31, 2012, receivables net of allowance for credit losses are disclosed in Note 6.

c) *Impairment of AFS equity investments*

The Group determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as decrease by more than 20.00% of the original cost of investment, and 'prolonged' as greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price.

In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As of June 30, 2013 and December 31, 2012, the carrying value of AFS investments are disclosed in Note 8.

d) *Estimated useful lives of property and equipment, software and website*

The useful lives of the property and equipment, software and website are estimated based on the period over which the property and equipment, software and website are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property and equipment, software and website are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment, software and website. However, it is possible that future results or operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

There is no change in the estimated useful lives of property and equipment, software and website during the year. As of June 30, 2013 and December 31, 2012, the carrying values of property and equipment are disclosed in Note 10.

e) *Impairment of nonfinancial assets (except Goodwill)*

PAS 36, *Impairment of Assets*, requires that an impairment review be performed when certain impairment indicators are present. Determining the value in use of property and equipment and other nonfinancial assets, which require the determination of future cash flows expected

to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements.

As of the reporting dates, the property and equipment and software do not have any indication of impairment.

Fifth Agency Unified Services, Inc. (FAUSI) stopped its normal operations in 2008. FAUSI suffered consecutive years of losses which the management believes may lead to non-recovery of their investment.

f) *Impairment of Goodwill*

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Key assumptions used in value in use calculations

The calculation of value in use for both cash-generating units are most sensitive to the following assumptions explained as follows:

Discount Rates. Discount rates reflect management's estimate of the risks specific to the cash generating unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The discount rate used for the cash-generating unit is based on the estimated cost of equity. This rate is further adjusted to reflect the market assessment of any risk specific to the generating unit for which estimates of cash flows have not been adjusted.

Growth Rate. Growth rate reflects management's estimate of the cash generating unit's earnings potential as a function of economic and industry growth and the unit's strategic position relative to its competitors. For purposes of the projection, a growth rate of 5.0% was used.

Sensitivity to Changes in Assumptions

With regard to the assessment of value-in-use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

g) *Asset retirement obligation*

Determining asset retirement obligation requires estimation of the costs of dismantling installations and restoring leased properties to their original condition. While the Group believes that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligation in the future period.

h) *Accrued retirement costs*

The determination of the Group's retirement cost is dependent on selection of certain assumptions used by the actuary in calculating such amount. Those assumptions include, among others, discount rates, rates of future salary increase, expected rate of return on plan assets and average remaining working lives of employees. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the

assumptions may materially affect the pension and other retirement obligation.

i) *Deferred tax assets*

The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the budgeted taxable income of the following period. This budget is based on the Group's past results and future expectations on revenue and expenses.

j) *Legal Contingencies*

The estimate of probable costs, if any, for the resolution of possible claims is developed in consultation with outside legal counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Based on management's assessment, there are no liabilities that require recognition arising from legal claims.

4. Segment Information

For management purposes, the Group is organized into major operating business segments as follows:

a. Investment holdings

The investment holdings segment deals in the acquisition and sale of financial instruments.

b. Remittance services

The remittance services segment provides the infrastructure and services as the largest direct agent for money transfer of Overseas Filipino Workers. Beyond the remittance business, this segment facilitates the fulfillment of e-commerce transactions and serves as a payment platform for any Business to Business (B2B) or Business to Customers (B2C) initiative.

c. Internet services

The internet services segment is engaged in the business of internet online-related products relating to a database search engine. It also provides enterprise and consumer solutions via products of the internet.

d. Mutual fund management

This segment deals in the management of mutual funds.

The Group mainly operates and generates revenue in the Philippines only, (i. e., one geographical location). Thus, geographical segment information is not presented.

The Group has no significant customers which contribute 10.00% or more of the consolidated revenues.

5. Cash and Cash Equivalents

This account consists of:

| | June 30, 2013 | December 31, 2012 |
|---------------------------|-----------------------|-----------------------|
| Cash on hand and in banks | P242,207,936 | P341,781,632 |
| Short-term investments | 1,541,777,786 | 1,027,360,145 |
| | <u>P1,783,985,722</u> | <u>P1,369,141,777</u> |

Cash in banks earn interest at the prevailing bank deposit rates. Short-term investments are made for varying periods of one to three months depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term investment rates.

6. Loans and receivables

This account consists of:

| | June 30, 2013 | December 31, 2012 |
|--|----------------------|-----------------------|
| Due from: | | |
| Western Union | ₱332,167,718 | ₱456,748,895 |
| Broker | (13,485,639) | 30,003,989 |
| Sub-agents | 16,217,384 | 15,174,922 |
| Business partners | - | 5,615,263 |
| Unquoted debt securities | 328,526,974 | 480,565,787 |
| Receivable from advertising and web development services | 40,589,686 | 42,529,019 |
| Accrued interest | 37,892,877 | 38,926,078 |
| Trade receivable | 13,023,270 | 11,737,072 |
| Advances to officers and employees | 4,438,040 | 3,429,063 |
| Others | 271,567,310 | 21,204,528 |
| | 1,030,937,620 | 1,105,934,616 |
| Less allowance for credit losses | 41,030,755 | 43,435,130 |
| | ₱989,906,865 | ₱1,062,499,486 |

Aging of Loans and Receivables

As of June 30, 2013

| No. of Days | Receivable from advertising and web development services | Due from WU, Brokers, Subagents and Affiliates | Unquoted Debt Securities | Others | Total |
|---------------------|--|--|--------------------------|--------------------|----------------------|
| Current (1-30 days) | 40,589,686 | 347,922,733 | 328,526,974 | 313,898,227 | 1,030,937,620 |
| 31 – 60 days | - | - | - | - | - |
| 61 – 90 days | - | - | - | - | - |
| Over 90 days | - | - | - | - | - |
| TOTAL | 40,589,686 | 347,922,733 | 328,526,974 | 313,898,227 | 1,030,937,620 |

Due from Western Union represents pay-outs from e-Business covering fund transfers and remittance services, which were not yet reimbursed by Western Union as of the reporting date.

Due from sub-agents arising from money transfer services are shown net of related payables to the same sub-agent. Sub-agent accounts showing net payable balances are shown under 'Accounts payable and other current liabilities' in the consolidated statements of financial position.

Unquoted debt securities represent investment in a credit linked note. This credit linked note is a financial instrument structured with an embedded credit default swap in relation to the linked obligation, a global bond issued by SM Investment Corporation to ING Bank. Aside from the credit default swap, the note contains an embedded foreign exchange option wherein the issuer has the option to pay interest in USD or in an equivalent amount of PHP calculated at the foreign exchange period end rate. No bifurcation was made on the embedded derivatives.

The advances to officers and employees are either subject for liquidation or collectible through salary deduction.

The terms and conditions of receivables are as follows:

- Due from sub-agents, business partners and Western Union are noninterest bearing and are generally on a one to four days' term.
- Due from broker is noninterest-bearing and are usually collectible on a 3-day term.
- Receivables from advertising and web development services are normally collectible within two to four months after completion of the contract while other receivables are due and demandable upon completion of the transaction.
- Interest receivables are generally collectible on a 180-day term.
- Due from affiliates represents short-term noninterest bearing advances for working capital requirements.
- Other receivables such as business partners and prudential guarantees are all short-term in nature.

7. Financial Assets at FVPL

This account consists of investments in:

| | June 30, 2013 | December 31, 2012 |
|----------------------------|--------------------|---------------------|
| Held-for-trading | | |
| Government bonds | ₱ 61,404,950 | 385,781,634 |
| Corporate securities | - | 61,575,000 |
| Derivative asset | | |
| Currency forward contracts | 2,625,000 | 2,801,400 |
| | <u>₱64,029,950</u> | <u>₱450,158,034</u> |

8. Available-For-Sale Investments

This account consists of investments in:

| | June 30, 2013 | December 31, 2012 |
|---------------------------------|----------------------|-----------------------|
| Debt securities | ₱2,168,915,585 | ₱1,605,784,164 |
| Equity securities | 1,455,955,551 | 1,667,064,599 |
| Mutual funds | 1,758,335,441 | 1,583,970,477 |
| | ₱ | ₱4,856,819,240 |
| Allowance for impairment losses | - | (239,312) |
| | <u>5,383,206,577</u> | <u>₱4,856,579,928</u> |

9. Prepaid Expenses and Other Current Assets

This account consists of:

| | June 30, 2013 | December 31, 2012 |
|----------------------------|--------------------|-------------------|
| Prepaid expenses | ₱3,552,548 | 2,461,136 |
| Input value-added tax | 7,361,193 | 3,253,030 |
| Creditable withholding tax | 12,887,982 | 536,782 |
| Others | 11,836,965 | 2,465,222 |
| | <u>₱35,638,688</u> | <u>₱8,716,170</u> |

10. Property and Equipment

Details of this account are presented below:

| | June 30, 2013 | December 31, 2012 |
|--------------------------------|---------------|-------------------|
| Cost | ₱316,460,745 | ₱342,469,816 |
| Less: Accumulated Depreciation | 275,011,649 | 296,559,266 |
| | ₱41,449,096 | ₱45,910,550 |

11. Other Noncurrent Assets

This account consists of:

| | June 30, 2013 | December 31, 2012 |
|-------------------------------------|---------------|-------------------|
| Receivable from sale of investments | ₱ - | ₱96,592,600 |
| Rental and other deposits | 23,984,286 | 20,729,593 |
| Software and website - net | 94,119 | 3,220,609 |
| Others | 265,259 | 810,483 |
| | | 121,353,285 |
| Less: Allowance for credit losses | - | 96,815,015 |
| | ₱24,343,664 | ₱24,538,270 |

12. Accounts Payable and Other Current Liabilities

This account consists of:

| | June 30, 2013 | December 31, 2012 |
|-------------------------------|---------------|-------------------|
| Due to sub-agents and brokers | ₱139,793,301 | ₱196,929,646 |
| Accrued expenses | 49,618,362 | 51,534,561 |
| Trade | 22,139,828 | 24,695,822 |
| Others | 35,311,533 | 25,121,506 |
| | ₱246,863,024 | ₱298,281,535 |

Terms and conditions of financial liabilities follow:

- Due to sub-agents and brokers are noninterest-bearing and are normally settled on a two to four days' term.
- Accrued interest are payable within 30 days from its accrual.
- Trade payables, accrued expenses and other payables are noninterest-bearing and are normally settled on a 60 to 90-day term.

13. General and Administrative Expenses

This account consists of:

| | June 30, 2013 | June 30, 2012 |
|--------------------------------|---------------------|---------------------|
| Salaries, wages and allowances | ₱57,050,892 | ₱58,324,218 |
| Rent and utilities | 42,188,094 | 42,492,297 |
| Outside services | 31,805,802 | 32,131,136 |
| Professional fee | 4,032,711 | 18,935,709 |
| Office supplies | 5,184,120 | 5,981,587 |
| Taxes and licenses | 8,176,052 | 6,669,009 |
| Transportation and travel | 1,733,798 | 2,539,682 |
| Representation | 2,382,921 | 960,453 |
| Advertising | 313,477 | 739,382 |
| Others | 7,884,594 | 9,479,239 |
| | ₱160,752,460 | ₱178,252,712 |

14. Retirement Costs

e-Business has a funded, noncontributory defined benefit pension plan covering substantially all of its qualified employees. The Parent Company and Yehey! have an unfunded, noncontributory defined benefit pension plan covering substantially all of their qualified employees.

15. Equity

a. Capital Stock - ₱1 par value of common shares

The details of this account are shown below:

| | |
|-------------------------------|---------------|
| Authorized shares | 2,250,000,000 |
| Issued and outstanding shares | 2,235,390,633 |

b. Treasury stock

On various dates in 2009, the Parent Company reacquired a total of 26.9 million shares for an aggregate price of ₱35.1 million. The aggregate amounts are presented in the consolidated financial statements as 'Treasury stock'.

In addition, on various dates in 2010, the Parent Company reacquired a total of 134.9 million shares for an aggregate price of ₱153.4 million.

16. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with, the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

17. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments, financial assets at FVPL and notes payable. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and accounts payable and other current liabilities, which arise directly from its operations.

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

Credit Risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties failed to discharge their contractual obligations.

The Group's credit exposures are to the National Government of the Philippines through investments in government securities, to blue-chip local firms through equity and corporate bond holdings and to commercial banks through its short-term deposits.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Group closely monitors its cash flows and ensures that credit facilities are available to meet its obligations as and when they fall due. The Group also has a committed line of credit that it can access to meet liquidity needs. Any excess cash is invested in short-term money market instruments. These investments are maintained to meet maturing obligations.

Market Risk

Market risk is the risk that movements of market prices will adversely affect the Company's financial condition. In managing its market risk exposure, the Company focuses on managing price (risk of loss arising from any change in the value of any asset or trading instrument) and foreign exchange risks (risk of loss arising from fluctuations in exchange rates).

18. Basic/Diluted Earnings Per Share

| | June 30, 2013 | June 30, 2012 | June 30, 2011 |
|---|----------------------|---------------|---------------|
| (a) Net income attributable to equity holders of the Parent Company | ₱485,577,712 | ₱203,380,577 | ₱272,288,431 |
| (b) Weighted average outstanding shares | 2,235,390,633 | 2,100,535,133 | 2,100,535,133 |
| (c) Basic/Diluted earnings (loss) per share (a/b) | ₱0.24 | ₱0.10 | ₱0.13 |