

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

1. For the quarterly period ended **September 30, 2017**
2. SEC Identification Number **AS-092-007059**
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 2005 East Tower, Philippine Stock Exchange Centre,  
Exchange Road, Ortigas Center, Pasig City 1605**

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
 

<b>Title of Each Class</b>	<b>Number of Shares of</b>
<b>Common Stock, P1.00 par value</b>	<b>Common Stock Outstanding</b>
	<b>4,199,582,266</b>
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 [  ]

## 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 (PhP)	Unaudited		Audited
	September 30, 2017	December 31, 2016	December 31, 2015
<b>Balance Sheet</b>			
Assets	9,602	9,119	8,666
Liabilities	558	989	700
Stockholders' Equity	9,044	8,130	7,966
Book Value per Share	2.1536	1.9361	3.7936
<b>Income Statement</b>			
Revenues	1,032	912	1,008
Expenses	399	560	562
Other Income / (Charges)	(47)	(98)	(107)
Net Income	586	254	339
Earnings per Share	0.1306	0.0473	0.0668

#### Results of Operations for the Quarter Ended September 30, 2017

3Q17 was mainly focused on geopolitical tensions coming out of North Korea, with Trump openly threatening to destroy North Korea. In retaliation, North Korea threatens to target Guam with its missiles. Because of this, markets were mostly defensive. Market activity was also muted because of the ghost month. PSEi was stuck in a range, hitting 8000 but then retreating to 7800. Then in September we had news that the senate was ready to pass the tax reform, which pushed the market decisively above 8000 to hit an all time high at 8200+. Peso continues to underperform however as we have now reached 51 levels against the USD. For the 3Q, the Vantage equity portfolio returned 5.74% vs PSEi return of 4.19%

Meanwhile in fixed income, BSP welcomed new governor Nestor Espenilla, taking over for Amando Tetangco. The new governor continued BSP stance and kept rates steady as inflation was still stable at around 3%. 2Q GDP also came in at 6.5% vs 6.4% expected. Also, government announced borrowing program, with borrowings to rise by 39% to 1.14t pesos in 2018. The 10y benchmark was fairly stable during this time period, starting at 4.6% and then going as low as 4.4%. For the period, the Vantage Fixed Income portfolio returned 1.13%

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

**eBusiness Services, Inc. ("eBiz")**

eBiz achieved money transfer volume of over 4.3 million transactions worth in excess of USD 926 million in 3Q 2017. Money transfer revenues increased by 7.62% Y/Y to PHP 284.62 million. Other sources of revenue are the operations from Foreign Exchange and Ancillary Products. Revenue from Foreign Exchange operations decreased by 12.52% Y/Y to PHP 59.58 million in 3Q 2017, while revenue from Ancillary Products increased by 7.4% Y/Y to PHP 17.4 million in 3Q 2017 due to increased ticketing transactions. Meanwhile, the Company's operating expenses decreased by 1.52% Y/Y to PHP 246.6 million in 3Q 2017. After provisions and taxes, eBiz posted a net income of PHP 80.87 million in 3Q 2017, higher by 22.17% versus 3Q 2016.

**Philequity Management, Inc. ("PEMI")**

For the third quarter of 2017, PEMI registered a net subscription amounting to P 764 million, a jump from a net redemption of P 199 million for the same period last year. Subscriptions for the quarter amounted to P2.265 billion. However redemptions also ballooned to P 1.501 million, tripling quarter on quarter and almost double the amount from the same period last year. Redemptions were yet again market driven as the PSEi reached new all-time highs and profit taking ensued among shareholders. More clients however subscribed to the funds, heeding to our advice and bullish outlook. Subscriptions were led by the Philequity PSE Index Fund, bringing in P 1.84 billion in net sales. Assets under management increased by 6.47% from the previous quarter to P 18.268 billion. We expect the market to move sideways pending news on tax reform and 3Q corporate earnings. Should tax reform be passed in full, we expect capital markets to move higher. Clients may take these as another sell-on-news play or as an opportunity to increase their positions.

**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.

	September 30, 2017	December 31, 2016
Current Ratio <sup>1</sup>	1202.48%	509.30%
Assets to Equity <sup>2</sup>	106.17%	112.16%
Liabilities to Equity <sup>3</sup>	6.17%	12.16%
Return on Average Assets <sup>4</sup>	6.26%	6.82%
Return on Average Equity <sup>5</sup>	6.82%	7.56%

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-September-2017 versus 30-September-2016

*100% decrease in internet sales and services*

Due to winding down of operations and deconsolidation of the subsidiary rendering this service.

*19.46% decrease in money changing and foreign exchange*

Brought by fluctuations in overall market condition

*42.24% increase in interest income*

Effect of higher investment in money market placement

*677.9% increase in trading gain/loss*

Largely from redemption of investment in mutual funds

*7.38% decrease in income from mutual funds*

Due to lower AUM of managed funds

*29.33% decrease in other revenues*

Earned lower dividends due to fewer dividend declarations of equities held.

*24.69% increase in general and administrative expenses*

Due to reclassification of commission account representing director management fee.

*60.52% decrease in cost of services and sales*

From increase in commission of distributors and reclassification of commission representing director management fee.

*13.68% increase in depreciation and amortization*

Due to higher PPE

*66.47% decrease in interest expense and bank charges*

Largely from decreased borrowing activities.

*139.79% increase in other income/charges*

Largely from revaluation gains on forward transactions of the Parent.

#### Balance Sheet items – September, 2017 versus end 2016

*35.22% increase in cash and cash equivalents*

Primarily from higher short-term investments for the period and as of reporting date.

*43.45% decrease in loans and receivables*

Primarily due to lesser receivable from Western Union.

*32.23% increase in financial assets at FVPL*

Chiefly due to higher investment in bonds and UITF.

*352.15% increase in prepaid expenses and other current assets*

Largely from increase in prepaid taxes and creditable withholding taxes.

*22.43% decrease in Available for Sale Investments*

Mostly from lesser investment in mutual funds by the parent

*825.87% increase in PPE*

Due to acquisition of office units

*16.93% decrease in accounts payable and other current liabilities*

Mostly from lesser payable to sub-agents.

*71.67% decrease in notes payable*

From loans which remain outstanding as of the end of the quarter 2017.

*80.88% increase in income tax payable*

Higher taxable income causing higher provision for income tax to be remitted for the quarter

## **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 2015, the company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2016 annual financial reporting;

It shall conduct later part of 2017 another impact evaluation using the outstanding balances of financial statements as of 31 December 2017.

## SIGNATURES

Pursuant to the requirements of 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 \_\_\_\_\_

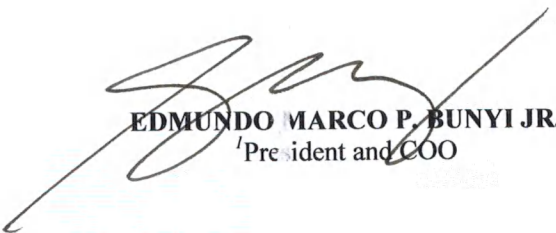
09 NOV 2017


**VANTAGE EQUITIES, INC.**

Issuer

By:

  
**VALENTINO C. SY**  
Chairman & CEO

  
**EDMUNDO MARCO P. BUNYI JR.**  
President and COO

  
**MARIBEL E. BERE**  
Comptroller / Principal Accounting Officer

  
**ATTY. ANN MARGARET K. LORENZO**  
Asst. Corporate Secretary

<sup>1</sup> equivalent to Principal Executive Officer / Principal Operating Office

ACKNOWLEDGEMENT

REPUBLIC OF THE  
PHILIPPINES) ~~CITY~~ **QUEZON CITY**  
S.S.


BEFORE ME, a Notary Public for and in the above jurisdiction, this **09 NOV 2017** day of  
November 2017, personally appeared:

Name	CTC No.	Date/Place Issued	TIN No.
<b>VALENTINO C. SY</b>	07451325	January 31, 2017/Pasig City	122-335-536
<b>EDMUNDO MARCO P. BUNYI JR.</b>	07417955	January 25, 2017/Pasig City	107-184-956
<b>MARIBEL E. BERE</b>	07417956	January 25, 2017/Pasig City	115-253-743
<b>ATTY. ANN MARGARET LORENZO</b>	01244589	February 02, 2017/Manila	274-323-370

Known to me and by me known to be the same person who executed the foregoing document consisting of two pages including this page where this acknowledgement is written and acknowledged to me that the same is his own free and voluntary act and deed.

Witness my hand and notarial seal on the date and at the place first above written.

Doc. No. 1714  
Page No. 46  
Book No. XIV 1/2  
Series of 2017.

  
**ATTY. LUIS M. DE VERA**  
Notary Public, Until Dec. 31, 2017  
PTR No. 3802407 / 1/01/2017  
BP No. 10345213 / 15/2018  
Rd. No. 29751  
5th MOLE No. 0009542  
Congressional District 10 Edsa Q.C.  
TIN No. 218-145-247

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

	Unaudited September 30, 2017	Audited December 31, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	5,300,188,676	3,919,800,284
Loans and Receivables – net (Note 8)	375,268,253	663,601,904
Financial Assets at Fair Value through profit or loss (FVPL) (Note 9)	507,181,410	383,564,142
Prepaid expenses and other current assets (Note 11)	31,715,080	7,014,313
<b>Total Current Assets</b>	<b>6,214,353,419</b>	<b>4,973,980,643</b>
<b>Noncurrent Assets</b>		
Available-for-sale investments (Note 10)	3,160,568,510	4,074,623,696
Investment in associates & JV– net	119,228	119,228
Deferred Tax Assets	41,319,889	11,911,959
Property and equipment – net (Note 12)	142,622,137	15,404,109
Retirement Asset	3,557,944	3,557,944
Other noncurrent assets - net (Note 13)	39,864,887	39,851,153
<b>Total Noncurrent Assets</b>	<b>3,388,052,595</b>	<b>4,145,468,089</b>
	<b>9,602,406,014</b>	<b>9,119,448,732</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Note 14)	304,561,181	366,646,530
Notes Payable	165,500,000	584,095,000
Income tax payable	46,734,588	25,837,737
<b>Total Current Liabilities</b>	<b>516,795,769</b>	<b>976,579,267</b>
<b>Noncurrent Liabilities</b>		
Deferred tax liabilities	36,260,470	6,852,541
Accrued Retirement Costs	5,084,330	5,084,330
Other noncurrent liabilities	-	-
<b>Total Noncurrent Liabilities</b>	<b>41,344,800</b>	<b>11,936,871</b>
	<b>558,140,569</b>	<b>988,516,138</b>
<b>Stockholders' Equity</b>		
Equity attributable to equity holders of the parent:		
Capital stock – ₱1 par value		
Authorized – 5,000,000,000		
Issued – 4,335,181,766	4,335,181,766	4,335,181,766
Stock Issuance Cost of a subsidiary		
Cumulative net unrealized gain on change in fair value of available-for-sale investments	1,125,205,928	797,847,053
Retained earnings	3,480,898,028	2,932,458,683
Remeasurement Losses on Retirement Plan	3,412,506	3,412,506
Treasury Stocks	(190,460,934)	(190,460,934)
Minority Interest	290,028,150	252,493,520
<b>Total Stockholders' Equity</b>	<b>9,044,265,445</b>	<b>8,130,932,594</b>
	<b>9,602,406,014</b>	<b>9,119,448,732</b>

*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)	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>REVENUES</b>				
Money transfer service	242,659,708	234,318,723	85,755,691	84,499,770
Internet service and sales	-	132,129	-	-
Money changing and foreign exchange	124,334,932	154,384,203	44,957,600	52,755,409
Interest income	70,072,106	49,262,128	26,782,807	15,824,700
Trading Gain/Loss	367,546,183	(63,599,845)	(8,630,305)	(40,996,503)
Income from Mutual Fund	191,817,934	207,100,027	64,459,890	72,548,058
Others	35,463,149	50,181,329	10,574,669	24,285,365
	<b>1,031,894,011</b>	<b>631,778,694</b>	<b>223,900,351</b>	<b>208,916,799</b>
<b>EXPENSES</b>				
General and administrative expenses (Note 15)	334,769,969	268,482,974	117,473,969	92,393,573
Cost of services and sales	49,148,901	124,489,666	17,391,927	47,791,100
Depreciation and amortization	15,323,602	13,479,974	5,865,187	4,643,306
	<b>399,242,473</b>	<b>406,452,614</b>	<b>140,731,084</b>	<b>144,827,979</b>
<b>INCOME FROM OPERATIONS</b>	<b>632,651,538</b>	<b>225,326,080</b>	<b>83,169,267</b>	<b>64,088,820</b>
<b>OTHER INCOME (CHARGES)</b>				
Interest and bank charges – net	(4,962,572)	(14,801,948)	(3,295,735)	(5,672,405)
Others	38,635,372	16,112,076	51,557,611	(3,884,448)
	<b>33,672,800</b>	<b>1,310,128</b>	<b>48,261,876</b>	<b>(9,556,853)</b>
<b>INCOME BEFORE EXTRA-ORDINARY</b>				
<b>Income/Expense</b>	<b>666,324,338</b>	<b>226,636,208</b>	<b>131,431,143</b>	<b>54,531,968</b>
Extra-Ordinary Income/(Exp.)	-	-	-	-
Impairment Loss	-	-	-	-
<b>INCOME BEFORE INCOME TAX</b>	<b>666,324,338</b>	<b>226,636,208</b>	<b>131,431,143</b>	<b>54,531,968</b>
<b>PROVISION FOR INCOME TAX</b>				
Current	80,350,361	49,476,930	17,786,066	20,692,167
Deferred	-	-	-	-
	<b>80,350,361</b>	<b>49,476,930</b>	<b>17,786,066</b>	<b>20,692,167</b>
<b>NET INCOME (LOSS)</b>	<b>585,973,977</b>	<b>177,159,278</b>	<b>113,645,077</b>	<b>33,839,801</b>
Attributable to:				
Equity holders of the parent	548,439,347	121,184,116	101,339,892	17,116,964
Minority interests	37,534,630	55,975,162	12,305,185	16,722,837
	<b>585,973,977</b>	<b>177,159,278</b>	<b>113,645,077</b>	<b>33,839,801</b>
<b>Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent</b>	<b>0.131</b>	<b>0.029</b>	<b>0.024</b>	<b>0.004</b>

*See accompanying Notes to Financial Statements*

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

For the Period Ended (Unaudited)  
September 30, 2017      September 30, 2016

**CASH FLOWS FROM OPERATING  
ACTIVITIES**

Income (loss) before Tax	666,324,338	226,636,208
Depreciation and amortization	15,323,602	13,479,974
Interest expense	4,962,572	(14,801,948)
Dividend income	17,342,582	(15,088,500)
Interest income	(68,871,579)	(49,262,128)

Operating income before working capital changes	635,081,514	160,963,606
Changes in operating assets and liabilities:	-	
Decrease (increase):	-	
Receivable	292,256,181	309,622,193
Prepaid expenses and other current assets	(176,842,801)	(5,617,853)
Increase (decrease) in accounts payable and other current liabilities	(32,677,418)	(26,504,275)

Net cash provided by (used for) operations	717,817,476	438,463,671
Interest paid	(4,962,572)	14,801,948
Income tax paid	(59,453,510)	(347,135,616)
Dividends received	(17,342,582)	14,444,065
Interest received	64,949,049	54,352,986
Net cash provided by (used in) operating activities	701,007,861	174,927,054

**CASH FLOWS FROM INVESTING  
ACTIVITIES**

Decrease (increase) in:	-	-
Property and equipment	(142,846,321)	(17,329,680)
Decrease (increase) in AFS/HTM	912,762,459	724,030,873
Increase (decrease) in net unrealized gain on AFS	328,059,418	368,620,154
Decrease (increase in) other assets	(26)	(1,131,068)

Net cash provided by (used in) investing activities	1,097,975,531	1,074,190,279
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**CASH FLOWS FROM FINANCING  
ACTIVITY**

Increase/(decrease) in loans	(418,595,000)	438,053,637
Cash used in financing activities	(418,595,000)	438,053,637

<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,380,388,392</b>	1,687,170,970
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<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>3,919,800,284</b>	1,862,379,177
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<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>5,300,188,676</b>	<b>3,549,550,147</b>
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*See accompanying Notes to Financial Statements*

**VANTAGE EQUITIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**For the Period Ended (Unaudited)  
**September 30, 2017**      September 30, 2016

<b>CAPITAL STOCK</b> - 1 par value		
Authorized - 5,000,000,000 shares		
Issued and outstanding - 4,199,582,266 shares		
Balance at beginning of year	<b>4,335,181,766</b>	2,235,390,633
Stock dividends issued	-	2,099,791,133
Balance at end of period	<b>4,335,181,766</b>	4,335,181,766
<b>CUMULATIVE NET UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF AVAILABLE-FOR-SALE SECURITIES</b>		
Balance at beginning of year	<b>797,847,053</b>	952,773,584
Unrealized Gain/(loss)	<b>327,358,875</b>	368,620,154
Balance at end of period	<b>1,125,205,928</b>	1,321,393,738
<b>REMEASUREMENT GAINS (LOSSES) ON RETIREMENT PLAN</b>		
Balance at beginning of year	<b>3,412,506</b>	757,218
Comprehensive income	-	-
Balance at end of period	<b>3,412,506</b>	757,218
<b>RETAINED EARNINGS (DEFICIT)</b>		
Balance at beginning of year	<b>2,932,458,683</b>	4,769,967,446
Net income (loss)	<b>585,973,977</b>	177,159,278
Share in Minority Interest	<b>(37,534,630)</b>	(55,975,162)
Stock Dividend		(2,099,791,133)
Balance at end of period	<b>3,480,898,028</b>	2,791,360,429
<b>TREASURY SHARES (Note 17)</b>	<b>(190,460,934)</b>	(190,460,934)
<b>MINORITY INTEREST</b>		
Balance at beginning of year	<b>252,493,520</b>	197,316,609
Deconsolidation of subsidiary	-	-
Total income and expenses recognized during the period	<b>37,534,630</b>	55,975,162
Balance at end of period	<b>290,028,150</b>	253,291,771
	<b>9,044,265,445</b>	8,511,523,988

*See accompanying Notes to Financial Statements*

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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, to hold and to use for investment shares of capital stock, bonds, debentures, promissory notes, or other securities or obligations created, negotiated or issued by any corporation, association or other entities.

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

The registered office address of the Parent Company is 2004-A East Tower, PSE Center, 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	
		September 2016	2015
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. (PBF)	Philippines	100.00	100.00
Philequity Foreign Currency Fixed Income Fund, Inc. (PFCFF)	Philippines	100.00	100.00
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 incorporated in the Philippines and is engaged in the 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 and was extended to December 20, 2022. E-Business receives 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 general financing business. On April 7, 2015, eBiz Financial's Board of Directors (BOD) decided to shorten its term of existence until October 31, 2015. This was approved by the stockholders on August 1, 2015.

### 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, iCurrencies effectively ceased 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 circular required additional documentation for sale of foreign currencies and required Foreign Exchange Corporations (FxCorps) to have a minimum paid-up capital of ₱50.00 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 ceased its business of buying and selling foreign currencies.

In the meantime, iCurrencies' income is derived from interest income on its bank deposits and short term deposits.

### PBF

PBF was incorporated in the Philippines, and was registered with the 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, 2015, PBF has not yet launched its capital shares to the public. The initial investment amounted to ₱25.00 million.

### PFCFF

PFCFF was incorporated in the Philippines, and was registered with the SEC on April 10, 2008 under the Philippine ICA as an open-end mutual fund company. PFCFF 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, 2015, PFCFF has not yet launched its capital shares to the public. The initial investment amounted to ₱25.00 million.

### PEMI

PEMI was incorporated in the Philippines on March 15, 1994 and is primarily engaged in the management of mutual funds.

PEMI serves as the fund manager of the following Mutual Funds (collectively referred to as "the Funds"):

- Philequity Fund, Inc. (PEFI)
- Philequity Dollar Income Fund, Inc. (PDIF)
- Philequity Peso Bond Fund, Inc. (PPBF)
- Philequity PSE Index Fund, Inc. (PPSE)
- Philequity Resource Fund, Inc. (PRF)
- Philequity Strategic Growth Fund, Inc. (PSGF)
- Philequity Balanced Fund, Inc. (PBF)
- Philequity Foreign Currency Fixed Income Fund, Inc. (PFCFF)
- Philequity Dividend Yield Fund, Inc. (PDYF)

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## 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 and all values are rounded to the nearest peso unit except when otherwise indicated.

Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Parent Company and each of the subsidiaries is Philippine peso.

### Statement of Compliance

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

### Basis of Consolidation

The financial statements of the subsidiaries are prepared based on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income, expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other voting shareholders of the investee;
- rights arising from other contractual arrangements; and
- the Parent Company's voting rights and potential voting rights.

The Parent Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All

intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Parent Company loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the cumulative translation differences recorded in equity
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Parent Company had directly disposed of the related assets and liabilities.

#### 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 and are presented in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to 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 certain amended Philippine Accounting Standards (PAS) and PFRS, which were adopted as of January 1, 2015.

Adoption of the following amended standards did not have any impact on the accounting policies, financial position or performance of the Group:

#### *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*

PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is not relevant to the Group, since it has noncontributory defined benefit plans.

#### *Annual Improvements to PFRSs (2010-2012 cycle)*

#### *PFRS 2, Share-based Payment - Definition of Vesting Condition*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

*PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments affect disclosures only and have no impact on the Group's financial position or performance.

*PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*.

*PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

*PAS 24, Related Party Disclosures - Key Management Personnel*

The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual Improvements to PFRSs (2011-2013 cycle)*

*PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

*PFRS 13, Fair Value Measurement - Portfolio Exception*

The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

*PAS 40, Investment Property*

The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or



business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

### Summary of Significant Accounting Policies

#### Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the Group's functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency using the Philippine Dealing System (PDS) closing rate prevailing at the reporting date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the prevailing closing exchange rate as of the date of initial transaction.

#### Cash and Cash Equivalents

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

#### Fair Value Measurement

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

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

For assets and liabilities that are recognized in the consolidated statement of financial position on a recurring basis, the Group determines whether transfers have occurred between levels in the

hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

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

##### *Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of equity and debt financial instruments that require delivery within the time frame established by regulation or convention in the market place are recognized on the trade date and settlement date, respectively. Deposits, loans and receivables, and accounts payable 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 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 September 30 2016 and December 31, 2015, the Group does not have HTM investments.

##### *'Day 1' difference*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from an 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 consolidated 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 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 purposes of selling and repurchasing in the near term.

Financial assets and financial liabilities may be designated by management on initial recognition as 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 'Trading and investment securities gains - net' in the consolidated statement of income. Interest earned or incurred is recorded in 'Interest income' in the consolidated statement of income, respectively, while dividend income is recorded in 'Dividend income' in the consolidated statement of income when the right to receive payment has been established.

As of December 31, 2015, the Group's financial assets at FVPL consists of Unit Investment Trust Fund (UITF), foreign currency forward contracts and warrants. As of September 30 2017 and December 31, 2016, the Group's financial assets at FVPL consists of foreign currency forward contracts and warrants.

#### *Derivatives classified as FVPL*

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. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the profit or loss in the consolidated statement of comprehensive income under 'Trading and investment securities gains - net'.

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 contract that significantly modifies the cash flows that would otherwise be required.

#### *Loans and receivables*

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 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 effective interest 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 effective interest rate (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.

As of September 30 2017 and December 31, 2016, loans and receivables consist of due from Western Union, due from broker, due from business partners, trade receivables, accrued interest receivable, receivable from related parties and employees and other receivables .

#### *AFS investments*

AFS investments are non-derivative 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 instruments 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 changes in fair value of available-for-sale investments, net of tax'.

When the security is disposed of, the cumulative gain or loss previously recognized in the 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 'Dividend income' when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the consolidated statement of income and removed from 'Changes in fair values of AFS investments' in OCI.

The Group's AFS investment consists of investment in equity securities, debt securities, mutual funds and golf shares.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Accounts payable and other current liabilities', 'Notes payable' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, accounts payable and similar financial liabilities not qualified as and not designated as FVPL, are subsequently measured at cost or amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

## Derecognition of Financial Assets and Financial 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 risks 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 has 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 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. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties. This is not generally the case with master netting agreements where 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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost, which includes cash and cash equivalents, loans and receivables and deposits lodged under 'other noncurrent assets', 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 consolidated 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 'Provision for credit and impairment losses' in the consolidated statement of income.

If the Group determines that no objective evidence of impairment exists for an 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 such 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 as 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 consolidated 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 income. If, in a 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 income, the impairment loss is reversed through the consolidated statement of income.

#### Investment in an Associate

Associates are entities which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. In the consolidated financial statements, investments in associates are 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 in the net assets of the associate, less any allowance for impairment losses. 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 investment. 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 the associate are eliminated to the extent of the interest in the associate.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization 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 expense 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.

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

Office condominium	20 years
Furniture and fixtures	2-10 years
Office improvements	10 years
Transportation equipment	5 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 and amortization are charged to the 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 the consolidated statement of income.

Construction in progress represents properties under construction or development and is stated at cost. This includes costs of construction, equipment, borrowing costs directly attributable to such asset during the construction period and other direct costs. Construction in progress is not depreciated until such time when the relevant assets are substantially completed and available for its intended use.

#### 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 Website and Investment in an Associate

The Group assesses at each reporting date whether there is an indication that a nonfinancial 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 assessments 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 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 as the excess of the aggregate of the consideration transferred, the amount recognized for any non-controlling interest in the collect and the fair value of the acquirer's previously-held interest, if any, over the fair value of the net assets acquired. 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 investment in PEMI, the cash-generating unit to which the goodwill relates. This requires an estimation of the value in use of the investment. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the investment and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The discount rate reflects management's estimate of the risks specific to the investment.

Where the recoverable amount of the investment is less than the carrying amount of the investment, an impairment loss is recognized. Impairment loss relating to goodwill cannot be reversed in future periods.

The Group performs its annual impairment test of goodwill at the consolidated statement of financial position date.

#### 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. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sale taxes or duties.

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

#### *Trading and investment securities gains - net*

Trading and investment securities gains - net includes all gains and losses from changes in fair value of financial assets at FVPL, derivatives and gains and losses from disposal of AFS investments and financial assets at FVPL and other financial instruments. Revenue is recognized on trade date upon receipt of confirmation of sale of investments from counterparties.

#### *Interest income*

Interest income on interest-bearing placements is recorded on a time proportion basis taking into account the effective yield of the asset. Interest on financial instruments is recognized based on the effective interest method of accounting.

#### *Dividend income*

Dividend income is recognized when the right to receive payment is established.

#### *Service income*

Service income comprises PEMI's management and other related fees. Management fee is recognized as services are rendered and in accordance with the management and distribution agreement. The other fees such as commissions are recognized upon subscription and sale of the Funds' common shares.

#### *Commission*

This represents the commission received by the Group from Western Union. The Group receives commission from Western Union for every money transfer service provided by the former for the latter. Revenue is recognized when the money transfer service with the customer has been processed, which is when Western Union acknowledges the transaction.

#### *Share in foreign exchange differential*

Western Union establishes the rates (on a daily basis) by which the currency in which money transfer service transaction is originated (originating currency) is converted to the currency in which the transaction is paid (payment currency). A foreign exchange differential gain arises when the rate set by Western Union at the date of receipt of the cash at the originating currency is different from the rate set on the date of the actual release of the cash under the payment currency. Share from foreign exchange differential based on the percentage as agreed with Western Union is recognized when remittance service is rendered and the originating currency is converted to the payment currency.

#### *Money changing gain*

Money changing gain is related to the Group's retail foreign exchange operations in the branches. Funds received from the customers denominated in the originating currency are translated to the payment currency based on the exchange rate set by the Group. The difference from the specified exchange rate and the current Philippine Dealing and Exchange Corporation (PDEX) closing rate is recognized as money changing gain. Income from money changing is recognized when the money exchange service has been rendered.

#### *Income from business partners*

This represents fees received by the Group from partner companies for other retail services in the branches including over-the-counter payment collection and airline ticketing services. Income from business partners are recognized at the time the services are rendered.

#### *Other revenues*

Other revenues include web development and production, media sales, portal and E-commerce revenues and digital public relations (PR) and digital strategy revenues. Revenue from web development and production is recognized based on the percentage of completion method. The stage of completion is assessed by reference to the stage of completion of the development, including completion of services provided for post-delivery service support. Revenue from media sales, portal and E-commerce is recognized at the time that services are rendered. Revenue from PR and digital strategy is recognized when services are rendered in accordance with the provisions of the contracts.

### Expense Recognition

Expenses are recognized when a 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.

#### *Cost of services and sales*

Cost of services and sales, which include personnel costs and other expenses incidental to the Group's primary services, are expensed as incurred.

#### *General and administrative expenses*

General and administrative expenses, which include the cost of administering the business and are not directly associated with the generation of revenue, are expensed as incurred.

### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are collectability as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs are calculated using the effective interest method in accordance with PAS 39.

### 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 reassessment 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 reassessment 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 a funded, noncontributory defined benefit retirement plan and the Parent Company, PEMI and Yehey! have unfunded, noncontributory defined benefit retirement plans covering substantially all of their regular employees.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

Defined benefit costs comprise of the following:

- a. service cost;
- b. net interest on the net defined benefit liability or asset; and
- c. remeasurements of net defined benefit liability or asset.

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when only when reimbursement is virtually certain.

## 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 liability method, on all temporary differences and carryforward benefits of excess minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO) at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of MCIT and NOLCO to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable 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 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. Movements in deferred tax assets and liabilities arising from changes in tax rate are charged or credited to income for the year.

Deferred tax relating to items recognized directly in other comprehensive income are also recognized in other comprehensive income.

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

#### 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 Parent Company 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 consolidated 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) attributable to common shareholders 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 (loss) 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 September 30 2016 and December 31, 2015, the Parent Company does not have dilutive potential common shares.

#### Discontinued Operations

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

#### Provisions

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 assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision 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.

#### 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 are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Period

Any post year-end 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 BOD and shareholders of the Parent Company and its subsidiaries while stock dividends are deducted from retained earnings upon distribution. Dividends for the year that are approved after the consolidated statement of financial position date are dealt with as an event after the reporting 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.

#### Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on its financial statements.

#### Deferred

##### *Philippine Interpretation IFRIC 15, Agreements 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 interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission and the Financial Reporting Standards Council 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. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

*PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB deferred indefinitely the effective date of these amendments pending the final outcome of the IASB's research project on International Accounting Standards 28. Adoption of these amendments when they become effective will not have any impact on the consolidated financial statements.

#### Effective January 1, 2016

##### *PFRS 10, Consolidated Financial Statements, and PAS 28, Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendments)*

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after

January 1, 2016. These amendments are not applicable to the Group since the Group is not an investment entity.

*PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

*PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests (Amendments)*

The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

*PAS 1, Presentation of Financial Statements - Disclosure Initiative (Amendments)*

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
- That specific line items in the consolidated statement of income and OCI and the consolidated statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

*PFRS 14, Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the consolidated statement of financial position and present movements in these account balances as separate line items in the consolidated statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects



of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

*PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture - Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

*PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

*Annual Improvements to PFRSs (2012-2014 cycle)*

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual period beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*  
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*  
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- *PAS 19, Employee Benefits - regional market issue regarding discount rate*  
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*  
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

#### Effective January 1, 2018

##### *PFRS 9, Financial Instruments*

In July 2014, the IASB issued the final version of International Financial Reporting Standard (IFRS) 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9. The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The requirements on hedge accounting will not have any impact on the Group's consolidated financial statements.

#### The following new standards issued by the IASB have not yet been adopted locally

##### *IFRS 15, Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 by the IASB and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date. The Group is currently assessing the impact of the adoption of this new standard.

### IFRS 16, *Leases*

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group plans to adopt the new standard on the required effective date once adopted locally. The Group is currently assessing the impact of the adoption of this new standard.

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### 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) *Assessment of control over investees*

The determination on whether the Parent Company has control over the investee requires significant judgment. For this, the Group considers the following factors: (a) power over the investee; (b) exposure, or right, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns. In assessing whether the Parent Company has power over the investee, the Parent Company assesses whether it has existing rights that give it the current ability to direct the relevant activities of the investee.

d) *Joint arrangements*

The Parent Company has investments in joint arrangements. The Parent Company has joint control over these arrangements as under the contractual arrangements, unanimous consent is required from all the parties to the agreement for all relevant activities.

e) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recognized or disclosed in the consolidated financial statements 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 identification of comparable investments and applicable credit spreads to arrive at adjusted quoted market prices.

The carrying values and corresponding fair values of financial instruments as well as the manner in which fair values were determined are discussed in more detail in Note 5.

f) *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.

g) *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.

h) *Revenue and cost recognition*

Selecting an appropriate revenue recognition method requires certain judgments based on, among others:

- buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment: In determining whether the sales price are collectible, the Group considers the initial and continuing investments by the buyer to demonstrate the buyer's commitment to pay; and
- stage of completion of the project: The Group recognizes only revenue from projects that are substantially complete.

The Group's revenue from and cost from web development services are recognized based on the percentage-of-completion method and the completion rate is measured principally on the basis of actual costs incurred to date over the estimated total costs of the project.

#### 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.

b) *Estimation of 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 September 30 2016 and December 31, 2015, the carrying value of receivables and the related allowance for credit losses are disclosed in Note 8.

c) *Impairment of AFS investments*

The Group treats AFS equity investments as 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 of more than 20.00% of the original cost of investment, and 'prolonged' as longer than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price for quoted equity securities and future cash flows and discount factors for unquoted equity securities.

The Group treats AFS debt investments as impaired when an objective evidence of impairment exists. Evidence of impairment may include indications that the counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that it will enter bankruptcy or other financial reorganization and

when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

- d) *Estimated useful lives of property and equipment, software and website costs*  
The useful lives of the property and equipment and software and website costs are estimated based on the period over which the property and equipment and software and website costs 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 and software and website costs 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 costs during the period.

- e) *Impairment of nonfinancial assets (except goodwill)*  
PAS 36 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. Any resulting impairment loss could have a material adverse impact on the Group's financial position and performance.

As of September 30 2017 and December 31, 2016, the Group's property and equipment and software do not have any indication of impairment.

- f) *Estimation of retirement costs*  
The determination of the Group's retirement cost is dependent on certain assumptions used by the actuary in calculating such amount. 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 retirement obligation.
- g) *Recognition of deferred tax assets*  
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets to be recognized, based upon likely timing and level of future taxable income.
- h) *Estimation of legal contingencies*  
The Group is currently involved in various legal proceedings. The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside legal counsel handling the Group's defense in these matters and is based upon thorough analysis of potential results. Based on the management's assessment, there are no legal claims that require recognition in the Group's consolidated financial statements as of September 30, 2017.

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

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments, financial assets at FVPL, accounts payable and other liabilities and notes payable.

The Group also has various other financial assets and liabilities such as trade receivables and deposits.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risks. 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 manages and controls credit risk by trading only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis so that the Group's exposure to credit losses is not that significant.

Since the Group trades only with recognized third parties, there is no requirement for collateral.

As of September 30, 2017 and December 31, 2016, the Group's maximum exposure to credit risk is equal to the carrying values of its financial assets since it does not hold any collateral or other credit enhancements that will mitigate credit risk exposure.

The fair values of financial assets at FVPL and AFS investments represent the credit risk exposure as of the reporting date but not the maximum risk exposure that could arise in the future as a result of changes in fair value of the said instruments.

There are no significant concentrations of credit risk within the Group.

#### 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 stressful 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 investments. These placements are maintained to meet maturing obligations.

#### Market Risk

Market risk is the risk that movements in market prices will adversely affect the Group's financial condition. In managing its market risk exposure, the Group focuses on managing price risk (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).

#### *Interest Rate Risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's AFS investments and financial assets at FVPL.

The sensitivity of equity is the effect of the assumed changes in interest rates by revaluing the fixed rate AFS investments while the sensitivity of income is the effect to changes in fair value of fixed rate financial assets at FVPL held as of reporting date.

#### *Foreign Currency Risk*

The Group has transactional currency exposures. The Group's financial instruments which are denominated in foreign currency include cash and cash equivalents, receivables, AFS investments, financial assets at FVPL, and long-term debt. The Group maintains several U.S. dollar accounts to manage its foreign currency denominated transactions.

### *Equity Price Risk*

Equity price risk is the risk that the fair value of quoted AFS investments will fluctuate as a result of changes in the value of individual stocks.

### Capital Management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management considers capital stock and retained earnings as core capital of the Group.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as interest-bearing long-term debt over total equity, excluding cumulative net unrealized gain or loss on changes in the fair value of AFS investments.

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## 5. Fair Value of Financial Assets

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

### *Cash and Cash Equivalents, Receivables (excluding Unquoted Debt Securities), Accounts Payable and Other Current Liabilities and Notes Payable*

The carrying amounts approximate fair values due to the short-term nature of these financial instruments.

### *AFS Investments and Financial Assets at FVPL*

Fair values are generally based on quoted market prices. For the Group's equity and fixed income investments, fair values are determined based on quoted shares in the PSE and fixing rates of the Philippine Dealing Exchange, respectively. If market prices are not readily available or if the securities are not traded in an active market, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost net of impairment, if any.

### *Derivative Instruments (included under Financial Assets at FVPL)*

Fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the reporting date, taking into account the remaining term to maturity of the derivative instruments. For the stock warrants, fair values are determined based on the quoted bid price.

### Fair value hierarchy

The Group uses the following hierarchy in determining and disclosing the fair value of financial instruments measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identified assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

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



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## 6. 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. Mutual fund management  
This segment deals in the management of mutual funds.

Management monitors the operating results of each segment. The measure presented to manage segment performance is the segment income before tax. Segment income before tax is based on the same accounting policies as the consolidated net income except that intersegment revenues are eliminated only at the consolidation level. Transfer pricing between segments are on arm's length basis in a manner similar to transactions with third parties.

The Executive Committee (Excom) is actively involved in planning, approving, reviewing, and assessing the performance of each Group's segment. The Excom oversees the Group's decision making process. The Excom's functions are supported by the heads of each of the segments, which provide essential input and advice in the decision-making process. The Chief Operating Decision Maker is the Chief Executive Officer.

The Group mainly operates and generates revenue in the Philippines. Thus, geographical segment information is not presented.

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

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## 7. Cash and Cash Equivalents

This account consists of:

	As of September 30, 2017	As of December 31, 2016
Cash on hand	277,097,272	240,249,704
Cash in banks	143,118,961	133,812,220
Short-term placements	4,879,972,442	3,545,738,360
<b>Total</b>	<b>5,300,188,676</b>	<b>3,919,800,284</b>

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.

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## 8. Loans and receivables

This account consists of:

	As of September 30, 2017	As of December 31, 2016
Due from:		
Western Union	330,122,804	523,250,009
Broker	842,478	5,501
Business partners	-	50,250
Accrued interest	12,767,260	8,825,647
Trade receivable	27,795,067	151,232,570
Receivable from related parties and employees	1,716,646	1,325,887
Others	36,814,437	13,702,480
	<b>410,058,693</b>	698,392,344
Less allowance for credit losses	<b>(34,790,440)</b>	(34,790,440)
<b>Total</b>	<b>375,268,253</b>	663,601,904

Aging of loans receivable is presented below:

No. of Days	Due from WU, Brokers, Subagents and Affiliates	Others	Total
Current (1-30 days)	332,681,928	77,376,764	<b>410,058,693</b>
31 – 60 days	-		-
61 – 90 days	-		-
Over 90 days	-		-
<b>TOTAL</b>	<b>332,681,928</b>	<b>77,376,764</b>	<b>410,058,693</b>

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 broker pertains to the amount collectible for the sale of quoted equity securities. This is usually collectible within three trading days following the settlement convention.

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.

The terms and conditions of loans and receivables are as follows:

- Due from Western Union, sub-agents, and business partners generally have one to four days' term.
- Due from broker is usually collectible within three days.
- Receivables from advertising and web development services are normally collectible within two to four months after billing is made.
- Advances to officers and employees are either subject for liquidation or collectible through salary deduction.
- Other receivables are all short-term in nature.

## 9. Financial Assets at FVPL

This account consists of investments in:

	As of September 30, 2017	As of December 31, 2016
UITF	149,997,155	236,066,750
Corporate Bonds	327,987,882	117,097,858
Derivative assets	29,196,373	30,399,534
	<b>507,181,410</b>	383,564,142

A UITF is a product offering of banks in which investors buy units of participation in the said fund. UITF investments are held for strategic purposes and are redeemable any time at the prevailing NAVPS.

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## 10. Available-For-Sale Investments

This account consists of investments in:

	<u>As of September 30, 2017</u>	<u>As of December 31, 2016</u>
Debt securities	263,391,398	352,377,847
Equity securities	781,070,730	568,034,860
Mutual funds	2,115,775,694	3,153,880,301
Golf Shares	570,000	570,000
	<u>3,160,807,822</u>	<u>4,074,863,008</u>
Allowance for impairment losses	(239,312)	(239,312)
	<u>3,160,568,510</u>	<u>4,074,623,696</u>

### Equity Securities

Quoted equity securities pertain to investments in stocks listed in the PSE.

### Government Bonds

Government bonds primarily consist of peso-denominated FXTNs and RTBs.

The Group also has US\$-denominated government bonds which include sovereign bonds issued by the Republic of the Philippines.

### Corporate Bonds

Quoted corporate bonds are peso-denominated and US\$-denominated bonds issued by private companies.

### Mutual Funds

Mutual funds represent investment in an open-end mutual fund. These investments are valued at net asset value per share (NAVPS) which is computed by dividing the mutual funds' net assets (total assets less total liabilities) by the total number of redeemable shares issued and outstanding as of reporting date.

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## 11. Prepaid Expenses and Other Current Assets

This account consists of:

	<b>As of September 30, 2017</b>	<b>As of December 31, 2016</b>
Prepaid expenses	<b>29,517,527</b>	1,721,749
Input value-added tax	<b>2,197,553</b>	4,295,695
Others		996,869
	<b>31,715,080</b>	7,014,313

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Prepaid expenses comprise rent, insurance and taxes. Others include PEMI's downpayment on software application on 2015 and construction and renovation deposits paid by e-Business' branches in 3<sup>rd</sup> quarter of 2017 and 2016, respectively.

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## 12. Property and Equipment

Details of this account are presented below:

	<b>As of September 30, 2017</b>	<b>As of December 31, 2016</b>
Cost	<b>409,582,335</b>	343,050,377
Less: Accumulated Depreciation	<b>266,960,198</b>	327,646,268
	<b>142,622,137</b>	15,404,109

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## 13. Other Noncurrent Assets

This account consists of:

	<b>As of September 30, 2017</b>	<b>As of December 31, 2016</b>
Receivable from sale of	<b>96,592,600</b>	96,592,600
Rental and other deposits	<b>25,490,130</b>	22,524,955
Software and website - net	<b>10,719,773</b>	13,651,215
Others	<b>3,877,399</b>	3,897,398
	<b>136,679,902</b>	136,666,168
Less: Allowance for credit	<b>96,815,015</b>	(96,815,015)
	<b>39,864,887</b>	39,851,153

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In 2001, the Parent Company sold its investment in Lucky Star at ₱96.59 million (a company incorporated to operate off-front on betting stations in the Philippines) since management believes that there is a significant uncertainty with respect to the recovery of this investment due to the Supreme Court decision to shut down Jai-alai operations. The related receivable from the sale, which is collectible over ten years at certain pre-agreed installment terms until 2012, has been fully provided with allowance for credit losses. As collections are actually received, an equivalent amount of the allowance will be reversed and credited to income.

The goodwill recognized in the consolidated statement of financial position pertains to the excess of the acquisition cost of the Parent Company over the book value (BV) per share of the investment in PEMI in 1994. The Group performed its annual impairment test on December 31, 2016. The relationship between the investment's current BV per share (considered as the recoverable amount) and its original carrying value (CV) per share, among other factor, when reviewing for indicators of impairment. As at December 31, 2016, the current BV per share of

PEMI is above the investment cost per share. There is no impairment loss recognized on goodwill as at 2016.

As of September 30, 2017 and December 31, 2016, there are no movements in the allowance for credit and impairment losses.

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#### 14. Accounts Payable and Other Current Liabilities

This account consists of:

	<b>As of September 30, 2017</b>	<b>As of December 31, 2016</b>
Due to sub-agents and brokers	<b>101,232,150</b>	163,033,209
Accrued expenses	<b>168,945,173</b>	109,575,198
Trade	<b>13,905,467</b>	63,746,238
Output value added tax	<b>3,648,873</b>	3,861,755
Derivative liabilities	<b>1,958,500</b>	6,602,875
Others	<b>14,871,018</b>	19,827,255
	<b>304,561,181</b>	366,646,530

Terms and conditions and nature of the liabilities follow:

- Due to sub-agents and brokers are noninterest-bearing and are normally settled on a two to four days' term.
- Accrued expenses consists of accruals for profit sharing costs, vacation leave and sick leave conversion, insurance, security services, cash delivery services, utilities, directors' commission
- Trade payables include business partners.
- Other payables include withholding taxes payable, documentary stamp tax payable, merchant deposits, sundry credits and others.

Trade payables, accrued expenses and other payables are all short-term in nature. These are settled within one year after the reporting period.

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#### 15. General and Administrative Expenses

This account consists of:

	<b>As of September 30, 2017</b>	<b>As of September 30, 2016</b>
Salaries, wages and allowances	<b>102,208,825</b>	99,465,205
Rent and utilities	<b>55,966,570</b>	54,874,815
Outside services	<b>47,248,643</b>	45,060,061
Professional fee	<b>32,529,660</b>	7,335,776
Office supplies	<b>8,445,662</b>	8,906,430
Taxes and licenses	<b>9,348,266</b>	19,687,279
Transportation and travel	<b>11,465,550</b>	11,701,091
Representation	<b>1,725,520</b>	7,692,868
Advertising	<b>1,639,624</b>	1,460,039
Others	<b>64,191,650</b>	12,299,410
	<b>334,769,969</b>	268,482,974

## 16. Retirement Costs

The Parent Company and PEMI have unfunded, noncontributory defined benefit pension plans covering substantially all of their qualified employees. E-Business has a funded, noncontributory defined benefit pension plan. The funds of the plan of e-Business are being administered and managed by the Trust & Investment Services Group of Union Bank of the Philippines.

## 17. Equity

The details of this account as of September 30 2017 and December 31, 2016 are shown below:

	30-Sep-17		31-Dec-16	
	Shares	Amount	Shares	Amount
Authorized shares (at par value*)	5,000,000,000	5,000,000,000	5,000,000,000	5,000,000,000
,Issued shares	4,335,181,766	4,335,181,766	4,335,181,766	4,335,181,766
Treasury stock	-135,599,500	-190,460,934	-135,599,500	-190,460,934
Outstanding shares	4,199,582,266	4,144,720,832	4,199,582,266	4,144,720,832

The track record of the Parent Company's registration of securities in compliance with the Securities Regulation Code Rule 68 Annex 68-D 1(I) follows:

### a. Authorized Shares

<u>Date of SEC Approval</u>	<u>Type of Shares</u>	<u>Authorized Number of Shares</u>
October 27, 2015	Common	5,000,000,000
January 12, 2009	Common	2,250,000,000
October 20, 1992	Common	1,900,000,000

### b. Stock Dividends

<u>Date of SEC Approval</u>	<u>Percentage</u>
December 18, 2015	100%
January 12, 2009	25%

### c. Number of Shareholders

<u>Year End</u>	<u>Number of shareholders</u>
December 31, 2016	629
December 31, 2015	629
December 31, 2014	635
December 31, 2013	648

On May 19, 2015, the BOD of the Parent Company approved the declaration of stock dividends equivalent to a total of ₱2.10 billion representing 2,099,791,133 shares at ₱1.00 par value per share, payable to all stockholders of record as of January 8, 2016. The said dividends were distributed on February 3, 2016.

#### *Dividend declaration of subsidiaries*

On February 3, 2016, the BOD and two-thirds (2/3) of the outstanding capital of the PEMI approved the declaration of stock dividends equivalent to a total of 1,785,000 shares at ₱100.00

par value per share, payable to all stockholders of record as of February 15, 2016. The said dividends is paid on March 14, 2016.

On December 11, 2013, the BOD of e-Business approved the declaration of stock dividends worth ₱150.00 million to stockholders of record as of December 30, 2013. Stock dividends were distributed on October 10, 2014.

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## 18. 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.

Related party transactions with subsidiaries are eliminated in the consolidated financial statements. These transactions are based on terms similar to those offered to non-related parties and are settled in cash.

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## 19. Basic/Diluted Earnings Per Share

	September 30, 2017	December 31, 2016
(a) Net income attributable to equity holders	548,439,347	121,184,116
(b) Weighted average outstanding shares	4,199,582,266	4,199,582,266
(c) Basic/Diluted earnings (loss) per share	0.1306	0.0288