Vantage Equities, Inc.
and Subsidiaries

Consolidated Financial Statements
December 31, 2017 and 2016
and for the Years Ended December 31, 2017,
2016 and 2015

and

Independent Auditor's Report

Building a better
working world

A member firm of Ernst & Young Global Limited

VANTAGE
EQUITIES, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Vantage Equities, Inc. and its Subsidiaries** is responsible for the preparation and fair presentation of the financial statements including the schedules attached for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such international control including the additional components attached therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error or fraud.

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

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

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to stockholders or members.

Sycip, Gorres, Velayo and Co., the independent auditors, appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

VALENTINO C. SY	**EDMUNDO MARCO P. BUNYI, JR.**	**JOSEPH L. ONG**
Chairman	President	Treasurer
CTC No.: 09951429	CTC No.: 07850504	CTC No.: 09951427
January 10, 2018/Manila	January 15, 2018/Pasig City	January 10, 2018/Manila
TIN: 122-335-536	TIN: 107-184-956	TIN: 108-789-427

Signed this 15th day of Mar, 2018.

SUBSCRIBED AND SWORN to me before this MAR 16 2018 at Pasig City, affiant exhibiting to me their Community Tax Certificates.

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Page No. 56
Book No. CLXV
Series of 2018

EDWIN G. CONDAYA
NOTARY PUBLIC
PASIG, PATEROS, SAN JUAN
UNTIL DEC. 31, 2018
PTR NO. 3826099/1-03-18
IBP NO. 0[illegible]004/12-19-17/UNTIL 201[illegible]
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TIN NO. 210-588-191-000
MCLE V-0004493
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SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Vantage Equities, Inc.

Opinion

We have audited the consolidated financial statements of Vantage Equities, Inc. and its Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Information Technology Environment Supporting the Trading-related Revenue Process

The Group is highly dependent on the reliability and continuity of its information technology (IT) environment to support the data processing of its revenue transactions. The IT environment is key to the Group's revenue process and is relied upon for many aspects of its revenue reporting process. In 2017, the Group implemented an application system and instigated post-implementation changes and updates which increases risks related to change management, system access and other IT operations processes. We therefore considered the testing of the IT controls over the IT processes as a key audit matter.

Audit Response

We have involved our internal specialist in obtaining an understanding of the Group's IT environment, which covers the IT applications, IT processes and IT personnel. We obtained an understanding of the IT controls over program changes to the IT applications, user access management to the IT applications and databases as well as controls over management of IT operations. To the extent applicable, we performed testing of the operation of the IT controls of the applications supporting the revenue process and tested the underlying revenue data for the information provided by the Group. We also performed walkthrough and testing of the revenue process transaction level controls. We evaluated and considered the results of the testing of controls in the design and extent of our substantive audit procedures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael C. Sabado.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-3 (Group A),
March 16, 2017, valid until March 15, 2020
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621321, January 9, 2018, Makati City

March 15, 2018

VANTAGE EQUITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Securities and Exchange Commission
APR 16 2018
I C T D

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	₱6,055,712,646	₱3,919,800,284
Receivables (Note 8)	565,227,210	663,601,904
Financial assets at fair value through profit or loss (Note 9)	2,355,945,567	383,564,142
Prepaid expenses and other current assets (Note 13)	9,207,992	7,014,313
Total Current Assets	8,986,093,415	4,973,980,643
Noncurrent Assets		
Available-for-sale investments (Note 10)	3,519,658,009	4,074,623,696
Investment in an associate (Note 14)	119,228	119,228
Property and equipment (Note 15)	142,231,869	15,404,109
Retirement assets (Note 24)	1,887,460	3,557,944
Deferred tax assets (Note 26)	–	11,836,999
Other noncurrent assets (Note 16)	41,706,408	39,851,153
Total Noncurrent Assets	3,705,602,974	4,145,393,129
	₱12,691,696,389	₱9,119,373,772
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 17)	₱565,127,141	₱366,646,530
Notes payable (Note 18)	2,842,700,000	584,095,000
Income tax payable	41,031,028	25,837,737
Total Current Liabilities	3,448,858,169	976,579,267
Noncurrent Liabilities		
Deferred tax liabilities (Note 26)	9,010,525	6,777,581
Retirement liabilities (Note 24)	6,208,505	5,084,330
Total Noncurrent Liabilities	15,219,030	11,861,911
Total Liabilities	3,464,077,199	988,441,178
Equity		
Equity attributable to equity holders of the Parent Company:		
Capital stock (Note 25)	4,335,181,766	4,335,181,766
Cumulative net unrealized gains on changes in fair value of available-for-sale investments (Note 10)	1,188,837,181	797,847,053
Remeasurement gains on retirement plan (Note 24)	3,282,821	3,432,897
Retained earnings	3,586,714,720	2,932,438,292
Treasury stock (Note 25)	(190,460,934)	(190,460,934)
	8,923,555,554	7,878,439,074
Non-controlling interests	304,063,636	252,493,520
Total Equity	9,227,619,190	8,130,932,594
	₱12,691,696,389	₱9,119,373,772

See accompanying Notes to Consolidated Financial Statements.

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUES (Notes 2 and 19)	**₱1,262,989,405**	₱827,391,455	₱877,274,198
COST OF SERVICES (Notes 2 and 20)	**(408,459,736)**	(382,493,187)	(436,494,676)
GROSS INCOME	**854,529,669**	444,898,268	440,779,522
GENERAL AND ADMINISTRATIVE EXPENSES, as adjusted (Notes 2 and 21)	**(137,519,849)**	(179,041,059)	(115,214,442)
INTEREST EXPENSE (Note 18)	**(28,622,463)**	(20,491,569)	(10,798,646)
UNREALIZED FOREIGN EXCHANGE GAIN (LOSS) (Note 11)	**25,965,141**	129,108,738	(1,053,504)
REALIZED FOREIGN EXCHANGE GAIN (LOSS) (Note 11)	**112,688,799**	(43,577,425)	2,979,481
OTHER INCOME - net (Note 22)	**1,214,254**	242,978	1,567,367
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	**828,255,551**	331,139,931	318,259,778
PROVISION FOR INCOME TAX (Note 26)			
Current	**100,367,761**	84,290,196	99,271,326
Deferred	**14,069,943**	(11,164,826)	3,970,783
Final	**7,971,303**	4,012,065	2,081,026
	122,409,007	77,137,435	105,323,135
INCOME FROM CONTINUING OPERATIONS	**705,846,544**	254,002,496	212,937,643
INCOME AFTER TAX FROM DISCONTINUED OPERATIONS (Note 12)	**–**	–	126,890,984
NET INCOME	**₱705,846,544**	₱254,002,496	₱339,828,627
Attributable to:			
Equity holders of the Parent Company (Note 28)	**₱654,276,428**	₱198,825,585	₱280,562,703
Non-controlling interest	**51,570,116**	55,176,911	59,265,924
	₱705,846,544	₱254,002,496	₱339,828,627
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 28)	**₱0.1558**	₱0.0473	₱0.0668
Basic/Diluted Earnings Per Share From Continuing Operations Attributable to Equity Holders of the Parent Company (Note 28)	**₱0.1558**	₱0.0473	₱0.0366

See accompanying Notes to Consolidated Financial Statements.

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱705,846,544**	₱254,002,496	₱339,828,627
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that recycle to profit or loss in subsequent periods:			
Net changes in fair value of available-for-sale investments (Note 10)	**390,990,128**	(91,490,137)	(819,485,744)
Item that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan, net of tax (Note 24)	**(105,053)**	2,675,679	(50,552)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**390,885,075**	(88,814,458)	(819,536,296)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱1,096,731,619**	₱165,188,038	(₱479,707,669)
Attributable to:			
Equity holders of the Parent Company	**₱1,045,161,503**	₱110,011,127	(₱538,973,593)
Non-controlling interests	**51,570,116**	55,176,911	59,265,924
	₱1,096,731,619	₱165,188,038	(₱479,707,669)

See accompanying Notes to Consolidated Financial Statements.

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

	Capital Stock (Note 25)	Cumulative Net Unrealized Gains on Changes in Fair Value of Available for-Sale Investments (Note 10)	Remeasurement Gains on Retirement Plan (Note 24)	Retained Earnings	Treasury Stock (Note 25)	Total	Non-Controlling Interest	Total Equity
Balance at January 1, 2017	**₱4,335,181,766**	**₱797,847,053**	**₱3,432,897**	**₱2,932,458,683**	**(₱190,460,934)**	**₱7,878,439,074**	**₱252,493,520**	**₱8,130,932,594**
Total comprehensive income for the year	**–**	**390,990,128**	**(150,076)**	**654,276,428**	**–**	**1,045,116,480**	**51,570,116**	**1,096,686,596**
Balance at December 31, 2017	**₱4,335,181,766**	**₱1,188,837,181**	**₱3,282,821**	**₱3,586,735,111**	**(₱190,460,934)**	**₱8,923,555,554**	**₱304,063,636**	**₱9,227,619,190**
Balance at January 1, 2016	₱2,235,390,633	₱889,337,190	₱757,218	₱4,833,403,840	(₱190,460,934)	₱7,768,427,947	₱197,316,609	₱7,965,744,556
Total comprehensive income for the year	–	(91,490,137)	2,675,679	198,825,585	–	110,011,127	55,176,911	165,188,038
Issuance of stock dividends (Note 25)	2,099,791,133	–	–	(2,099,791,133)	–	–	–	–
Balance at December 31, 2016	₱4,335,181,766	₱797,847,053	₱3,432,897	₱2,932,438,292	(₱190,460,934)	₱7,878,439,074	₱252,493,520	₱8,130,932,594
Balance at January 1, 2015	₱2,235,390,633	₱1,708,822,934	₱807,770	₱4,552,841,137	(₱190,460,934)	₱8,307,401,540	₱229,756,637	₱8,537,158,177
Total comprehensive income for the year	–	(819,485,744)	(50,552)	280,562,703	–	(538,973,593)	59,265,924	(479,707,669)
Deconsolidation of subsidiaries (Note 12)	–	–	–	–	–	–	(91,705,952)	(91,705,952)
Balance at December 31, 2015	₱2,235,390,633	₱889,337,190	₱757,218	₱4,833,403,840	(₱190,460,934)	₱7,768,427,947	₱197,316,609	₱7,965,744,556

See accompanying Notes to Consolidated Financial Statements.

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

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from continuing operations before income tax	**₱828,255,551**	₱331,139,931	₱318,259,778
Income from discontinued operations before income tax (Note 12)	**–**	–	126,890,984
Adjustments for:			
Losses (gains) on sale of AFS investments (Note 10)	**(92,380,157)**	106,572,843	(134,691,333)
Interest income (Note 19)	**(104,753,106)**	(70,170,607)	(69,090,087)
Impairment loss on AFS investments (Note 10)	**–**	33,709,667	201,000,010
Dividend income (Note 19)	**(17,757,656)**	(21,607,713)	(43,149,613)
Gain on deconsolidation of subsidiaries (Notes 1 and 12)	**–**	–	(124,110,475)
Unrealized foreign exchange gain (Note 11)	**(25,965,141)**	(129,108,738)	1,053,504
Depreciation and amortization (Notes 15 and 16)	**19,702,918**	19,961,653	20,733,089
Interest expense (Note 18)	**28,622,463**	20,491,569	10,798,576
Loss (gain) on sale of property and equipment (Note 22)	**(1,214,254)**	213,626	(727,148)
Retirement expense (Note 24)	**2,644,583**	2,591,462	2,414,665
Operating income before working capital changes	**637,155,201**	293,793,693	309,381,950
Decrease (increase) in:			
Receivables	**108,200,776**	(153,453,159)	136,404,837
Financial assets at fair value through profit or loss	**(2,246,348,590)**	259,095,968	(481,968,915)
Prepaid expenses and other current assets	**(2,193,679)**	10,465,119	(9,512,783)
Increase (decrease) in accounts payable and other current liabilities	**198,480,611**	33,377,464	(50,623,030)
Net cash generated from (used in) operations	**(1,304,705,681)**	443,279,085	(96,317,941)
Interest received	**94,927,024**	78,998,331	68,068,565
Income tax paid	**(93,145,773)**	(104,410,882)	(84,611,958)
Net cash provided by (used in) operating activities	**(1,302,924,430)**	417,866,534	(112,861,334)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale investments	**2,285,803,043**	6,022,693,956	12,274,675,661
Property and equipment	**1,214,286**	114,092	(729,618)
Software	**1,896,967**	–	–
Investment in a subsidiary, net of cash (Note 12)	**–**	–	32,092,534
Proceeds from maturity of derivative assets	**111,846,759**	15,668,700	–
Acquisition of:			
Available-for-sale investments	**(1,118,682,022)**	(4,775,562,027)	(11,773,271,146)
Property and equipment (Note 15)	**(141,041,523)**	(7,512,024)	(10,592,601)
Software		(16,720,242)	–
Dividends received (Note 19)	**17,757,656**	21,607,713	43,149,613
Decrease (increase) in other noncurrent assets	**(9,241,409)**	(1,875,484)	1,587,668
Net cash provided by investing activities	**1,149,553,757**	1,258,414,684	566,912,111
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from notes payable (Note 18)	**15,597,760,000**	14,721,140,250	9,872,522,310
Payments of notes payable (Note18)	**(13,339,155,000)**	(14,453,545,250)	(9,927,466,630)
Net cash provided by (used in) financing activities	**2,258,605,000**	267,595,000	(54,944,320)

(Forward)

	2017	2016	2015
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (Note 11)	**₱30,678,035**	₱113,544,889	(₱26,454,004)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,135,912,362**	2,057,421,107	372,652,453
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,919,800,284**	1,862,379,177	1,489,726,724
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)	**₱6,055,712,646**	₱3,919,800,284	₱1,862,379,177

See accompanying Notes to Consolidated Financial Statements.

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information
Vantage Equities, Inc. (the Parent Company) was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission (SEC) on October 20, 1992. The primary business of the Company is to invest in, acquire by purchase, exchange, assignment or otherwise of the capital stock, bonds, debentures, promissory notes and similar financial instruments. The Company's shares are publicly traded in the Philippine Stock Exchange (PSE).

On June 20, 2017, the Board of Directors (BOD) approved Article 3 of Articles of Incorporation to change its principal address from 2005 East Tower PSE Centre, Ortigas Center, Pasig City, Metro Manila, Philippines to 15th Floor Phil. Stock Exchange, 5th Avenue corner 28th Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The Amended Articles of Incorporation was approved by the Securities and Exchange Commission on October 26, 2017.

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 2017	2016	2015
e-Business Services, Inc. (e-Business)	Philippines	100.00	100.00	100.00
eBIZ Financial Services, Inc. (eBIZ Financial)*	Philippines	100.00	100.00	100.00
iCurrencies, Inc. (iCurrencies)	Philippines	100.00	100.00	100.00
Philequity Balanced Fund, Inc. (PBF)	Philippines	100.00	100.00	100.00
Philequity Foreign Currency Fixed Income Fund, Inc. (PFCFF)	Philippines	100.00	100.00	100.00
Philequity MSCI Philippines Index Fund, Inc.(PMIF)***	Philippines	100.00	–	–
Philequity Management, Inc. (PEMI)	Philippines	51.00	51.00	51.00
Yehey! Corporation (Yehey!)**	Philippines	–	–	–

**Indirectly owned through e-Business*
***Deconsolidated on October 31, 2015 (Note 12)*
**** Incorporated on December 15, 2017*

The Parent Company is the ultimate parent of the Group.

e-Business
e-Business was 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 International Representation Agreement (Agreement) with Western Union Financial Services, Inc. (Western Union) covering its fund transfer and remittance services until 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.

As of December 31, 2017, the management intends to retain the dormant status of the Company until a viable plan to revive its operations is drawn up. In the meantime, iCurrencies is sustained by interest income on its 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, 2017, PBF has not yet launched its capital shares to the public. The initial investment amounted to ₱25.00 million.

On November 11, 2017, the Board of Directors (BOD) decided to shorten the corporate life of the Fund until December 31, 2017.

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, 2017, PFCFF has not yet launched its capital shares to the public. The initial investment amounted to ₱25.00 million.

On November 11, 2017, the Board of Directors (BOD) decided to shorten the corporate life of the Fund until December 31, 2017.

PMIF

PMIF was incorporated in the Philippines, and was registered with the SEC on December 15, 2017 under the Philippine ICA as an open-end mutual fund company. PMIF is engaged to subscribe for, invest and re-invest in, sell, transfer or otherwise dispose of securities of all kinds, including all types of stocks, bonds, debentures, notes, mortgages, or other obligations, commercial papers, acceptances, scrip, investment contracts, voting trust, certificates, certificates of interest, and any receipts, warrants, certificates, or other instruments representing any other rights or interests therein, or in any property or assets created or issued by any all persons, firms, associations, corporations, organizations, government agencies or instrumentalities thereof; to acquire, hold, invest and reinvest in, sell, transfer or otherwise dispose of, real properties of all kinds; and generally to carry on the business of an Open-End Investment Company in all the elements and details thereof as prescribed by law. As of December 31, 2017, PMIF 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 full 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)
- Philequity MSCI Philippines Index Fund, Inc. (PMIF)

The following government agency and private institutions also engaged PEMI to serve as fund manager for a certain portion of their funds:

- Government Service Insurance System (GSIS)
- Bangko Sentral ng Pilipinas Provident Fund (BSPPF)
- Unicapital Securities, Inc. (USI)
- De la Salle University, Inc. (DLSU)
- De la Salle University, Inc. - College of Saint Benilde (DLSU-CSB)

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.

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.

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.

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.

<u>Non-Controlling Interest</u>
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.

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.

Reclassification
In 2017, the Group reclassified a portion of its ‘General and administrative expenses’ to ‘Cost of services’ in its consolidated statement of comprehensive income. The management assessed that the new classification is more appropriate and properly present the nature of the transactions. In addition, the Group also reclassed its ‘commission expense’, which was considered in the computation of ‘Trading and investment securities gains (losses) - net’ to ‘General and administrative expenses’. Accordingly, the 2016 and 2015 amounts were reclassified to conform to the 2017 classification.

New and Amended Standards and Interpretations
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2017. Adoption of these pronouncements did not have any significant impact on the Company’s financial position or performance.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to Philippine Audit Standard (PAS) 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

In 2017, the Group adopted the amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Company disclosed information about its interest-bearing loans in Note 18.

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification. An asset is current if:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as noncurrent.

Deferred tax assets and deferred tax liabilities are classified as noncurrent assets and liabilities, respectively.

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 and foreign currency-denominated income and expenses, at prevailing exchange rates at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency denominated assets and liabilities are credited to or charged against operations in the year in which the rates change. 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.

Unrealized foreign exchange gain
This account pertains to the unrealized foreign exchange gain earned by the Group from the maturity of their US$ denominated short-term deposits and the revaluation made for their NDF. Any foreign exchange gain earned is lodged as unrealized since, upon maturity of the deposits, the entire proceed, including interest earned, is retained in the Group's US$ bank account. Unrealized foreign exchange gain is recognized for the valuation of foreign currency denominated short-term deposits and revaluation of the NDF at month-end.

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 (3) months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial instruments that require delivery of assets and liabilities within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

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 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 December 31, 2017 and 2016, the Group does not have HTM investments.

'Day 1' difference
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the profit or loss in the consolidated statement of comprehensive income 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 profit or loss in the consolidated statement of comprehensive 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.

In 2017, 2016 and 2015, there were no 'Day 1' differences recognized in the profit or loss in the consolidated statement of comprehensive income.

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, financial 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 (losses) - net' in the consolidated statement of income. Interest earned or incurred is recorded in 'Interest income' or 'Interest Expense' in the consolidated statement of income, respectively, while dividend income is recorded in 'Dividend income' in the consolidated statement of income when the right to receive payment has been established. Gains or losses on disposal are determined using the average cost method.

The Group's financial assets at FVPL consists of Unit Investment Trust Fund (UITF), government bonds, corporate bonds and foreign currency forward contracts as of December 31, 2017 and 2016 (Note 9).

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 accounting hedges) are taken firectly to the consolidated statement of income under 'Unrealized foreign exchange gain'. The Group have currency forwards (NDF) which are considered as stand-alone derivatives as of December 31, 2017 and 2016.

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. The Group does not have embedded derivatives as of December 31, 2017 and 2016.

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

As of December 31, 2017 and 2016, 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 (Note 8).

AFS investments
AFS investments are nonderivative financial assets which are designated as such or do not qualify to be classified as designated at FVPL, HTM investments or 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 comprehensive 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 AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in the equity section of the consolidated statement of financial position is recognized as 'Trading and investment securities gains (losses) - net' in the profit or loss in the consolidated statement of comprehensive income. Gains and losses on disposal are determined using the average cost method. For equity securities, commission expense is not considered in calculating the gain or loss.

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 'Net changes in fair value of AFS investments' in OCI.

The Group's AFS investment consists of investment in equity securities, debt securities, mutual funds and golf shares (Note 10).

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 EIR. 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.

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 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 consolidated 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.

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, such as receivables, 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. Receivables, 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 the 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, 'significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original 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. 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 at cost.

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 nor tested for impairment. 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 construction cost or purchase price 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.

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

Depreciation and amortization commences once the property and equipment are available for use and 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	3-10 years
Office improvements	10 years
Transportation equipment	4-5 years
Server and network equipment	3 years
Leasehold improvements	2-5 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 to or charged against 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
Development costs of software, which are 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 Non-financial assets
The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when an 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 (CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU 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. 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 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.

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 recognized from disposal of AFS equity investment is gross of the commission expense paid to the broker. 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 income. 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.

Money transfer service income
This represents the commission received by the Group 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 at originating currency is converted to the 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.

Realized foreign exchange gain
Realized foreign exchange gain pertains to the realized gain from the settlement of US$ denominated NDF and from the buy and sell of US$ denominated currency. Realized gain from NDF pertains to the difference between the agreed upon forward rate and the fixing rate used in the actual settlement of the NDF, translated into Philippine peso. While realized gain from the buy and sell of US$ denominated currency is the difference between the spot rate from the day the currency was bought to the day it was sold. Realized foreign exchange gain is recognized when the transactions are settled and gains are translated into Philippine peso.

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 Western Union (WU). 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.

Other income - net
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.

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.

<u>Expense Recognition</u>
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.

<u>Finance Costs</u>
Finance costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Finance costs are calculated using the EIR method in accordance with PAS 39, *Financial Instruments* and recorded as interest expense once incurred.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date 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. Fixed 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 Cost
e-Business has a funded, noncontributory defined benefit retirement plan and the Parent Company, and PEMI 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.

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

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 and only when reimbursement is virtually certain.

Income Taxes

Current Tax

Current tax assets and liabilities 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.

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 period. 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.

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

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

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.

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 reporting are dealt with as subsequent events.

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 December 31, 2017 and 2016, 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.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain that the expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

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. Post year-end events that are not adjusting events, if any, are disclosed in the notes to consolidated financial statements, when material.

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
Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  In 2017, the Group performed its initial impact assessment of all three phases of PFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information becoming available to the Group when it adopts PFRS 9 in 2018.

  (a) Classification and measurement

  Debt securities currently held as AFS investment under PAS 39, amounting to ₱193.52 million, are expected to be classified at fair value through other comprehensive income (FVOCI) as these are held both to collect contractual cash flows and to sell.

  Quoted equity securities and mutual fund investments currently held as AFS, amounting to ₱1,059.87 million and ₱2,272.48 million, respectively, are to be measured at fair value through profit or loss.

  (b) Impairment

  PFRS 9 requires the Group to record expected credit losses on all of its debt financial assets. The Group is currently quantifying the impact of the change in measuring credit losses.

(c) Hedge accounting

The Group does not have any existing hedge relationships that are currently designated in effective hedging relationships under PAS 39.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*

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

  The Group is still assessing the potential impact of adopting PFRS 15 in 2018.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is still assessing the potential impact of adopting PFRS 16 in 2018. The adoption may impact the operating lease agreements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

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

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

  The interpretation specifically addresses the following:

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

  An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Deferred effectivity

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

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the management to make judgments and estimates that affect the reported amounts of revenues, expenses, assets, and liabilities and the accompanying disclosures, as well as disclosure of contingent assets and contingent liabilities, if any. 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 consolidated 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.

<u>Judgments</u>
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. *Recognition of deferred tax assets*
Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that 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.

Deferred tax assets and liabilities on temporary differences recognized in the consolidated statements of financial position as of December 31, 2017 and 2016 are disclosed in Note 26.

b. *Determination of whether the Group is acting as a principal or an agent in its revenue transactions*
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 that it is acting as an agent due to the following characteristics of its relationship with the Funds:

- The Group does not have significant ownership over the Funds.
- The Funds have the substantive and practical ability to exercise its kick-out rights held by the BOD. The Group can be terminated anytime without any grounds/cause and without payment of penalty by the majority vote of the BOD of the Funds or 2/3 votes of the outstanding capital.

- There are no interlocking directors between the Group and the Funds and only 1/7 BOD representation between the Funds and the Group.
- The remuneration agreement between the Group and the Funds are the customary arrangement for the services it renders and is negotiated on an arm's length basis.

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

Fair value of financial instruments
The fair values of derivative assets and liabilities recognized or disclosed in the consolidated financial statements cannot be derived from active markets, these are determined using a valuation technique that include the use of mathematical model. The inputs to this model 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 derivative asset and liabilities as well as the manner in which fair values were determined are discussed in more detail in Note 5.

4. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, receivables, AFS investments, financial assets at FVPL, account payable and other liabilities. The Group also has various other financial assets and liabilities such as 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 December 31, 2017 and 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.

The table below shows an aging analysis of receivables:

	2017							
	Neither Past Due nor Impaired	**Past Due but not Impaired**						
		91–120 Days	**121–150 Days**	**151–180 180 Days**	**Over 180 Days**	**Subtotal**	**Impaired**	**Total**
Due from:								
Western Union	**₱509,934,285**	**₱–**	**₱–**	**₱–**	**₱–**	**₱509,934,285**	**₱–**	**₱509,934,285**
Business partners	**66,560**	**–**	**–**	**–**	**–**	**66,560**	**–**	**66,560**
Trade receivables	**31,281,881**	**–**	**–**	**–**	**–**	**31,281,881**	**26,612,902**	**57,894,783**
Interest receivable	**18,651,729**	**–**	**–**	**–**	**–**	**18,651,729**	**–**	**18,651,729**
Receivable from related parties and employees	**1,141,939**	**–**	**–**	**–**	**–**	**1,141,939**	**286,804**	**1,428,743**
Others*	**2,793,048**	**94,786**	**94,786**	**94,786**	**1,073,410**	**4,150,816**	**7,890,734**	**12,041,550**
	₱563,869,442	**₱94,786**	**₱94,786**	**₱94,786**	**₱1,073,410**	**₱565,227,210**	**₱34,790,440**	**₱600,017,650**

Others include other non-trade receivables.

	2016							
	Neither Past Due nor Impaired	Past Due but not Impaired						
		91–120 Days	121–150 Days	151–180 180 Days	Over 180 Days	Subtotal	Impaired	Total
Due from:								
Western Union	₱523,250,009	₱–	₱–	₱–	₱–	₱523,250,009	₱–	₱523,250,009
Broker	5,501	–	–	–	–	5,501	–	5,501
Business partners	50,250	–	–	–	–	50,250	–	50,250
Trade receivables	124,619,668	–	–	–	–	124,619,668	26,612,902	151,232,570
Interest receivable	8,825,647	–	–	–	–	8,825,647	–	8,825,647
Receivable from related parties and employees	1,039,083	–	–	–	–	1,039,083	286,804	1,325,887
Others*	5,562,512	83,078	83,078	83,078	–	5,811,746	7,890,734	13,702,480
	₱663,352,670	₱83,078	₱83,078	₱83,078	₱–	₱663,601,904	₱34,790,440	₱698,392,344

Others include other non-trade receivables.

The table below shows the credit quality of the Group's neither past due nor impaired financial assets based on historical experience with the corresponding third parties.

	2017			
	Grade A	**Grade B**	**Grade C**	**Total**
Cash and cash equivalents	**₱5,883,201,999**	**₱–**	**₱–**	**₱5,883,201,999**
Loans and receivables:				
Due from:				
Western Union	**509,934,285**	**–**	**–**	**509,934,285**
Business partners	**66,560**	**–**	**–**	**66,560**
Trade receivables	**31,281,881**	**–**	**–**	**31,281,881**
Interest receivable	**18,651,729**	**–**	**–**	**18,651,729**
Receivable from related parties and employees	**1,141,939**	**–**	**–**	**1,141,939**
Others	**2,214,019**	**579,029**	**–**	**2,793,048**
AFS investments:				
Quoted:				
Mutual funds	**2,262,699,318**	**–**	**–**	**2,262,699,318**
Government bonds	**108,903,593**	**–**	**–**	**108,903,593**
Corporate bonds	**87,613,868**	**–**	**–**	**87,613,868**
FVPL investments:				
Quoted:				
UITF	**1,501,906,115**	**–**	**–**	**1,501,906,115**
Government bonds	**506,720,829**	**–**	**–**	**506,720,829**
Corporate bonds	**217,829,928**	**–**	**–**	**217,829,928**
Derivative assets	**129,488,695**	**–**	**–**	**129,488,695**
Deposits (included in "Other noncurrent assets")	**18,873,830**	**–**	**–**	**18,873,830**
	₱11,280,528,588	**₱579,029**	**₱–**	**₱11,281,107,617**

	2016			
	Grade A	Grade B	Grade C	Total
Cash and cash equivalents	₱3,679,550,579	₱–	₱–	₱3,679,550,579
Loans and receivables:				
Due from:				
Western Union	523,250,009	–	–	523,250,009
Broker	5,501	–	–	5,501
Business partners	50,250	–	–	50,250
Trade receivables	124,619,668	–	–	124,619,668
Interest receivable	8,825,647	–	–	8,825,647
Receivable from related parties and employees	1,039,083	–	–	1,039,083
Others	–	5,811,746	–	5,811,746
AFS investments:				
Quoted:				
Mutual funds	3,153,880,301	–	–	3,153,880,301
Corporate bonds	219,186,847	–	–	219,186,847
Government bonds	133,191,000	–	–	133,191,000
FVPL investments:				
Quoted:				
UITF	236,066,750	–	–	236,066,750
Corporate bonds	117,097,858	–	–	117,097,858
Derivative assets	30,399,534	–	–	30,399,534
Deposits (included in “Other noncurrent assets”)	22,524,955	–	–	22,524,955
	₱8,249,687,982	₱5,811,746	₱–	₱8,255,499,728

Grade A financial assets pertain to those investments with counterparties of good credit standing or receivables from clients or customers that consistently pay on or before the maturity date.

Grade B accounts are active accounts with minimal to regular instances of payment, default, due to collection issues. These accounts are typically not impaired as the counterparties generally respond to the Group’s collection efforts and update their payment accordingly.

Grade C include those receivables being collected on due dates with varying collection efforts required, ranging from minimum to moderate that may require close monitoring.

Cash and cash equivalents are classified as Grade A because these are deposited with reputable banks.

AFS investments and financial assets at FVPL are classified as Grade A since these mostly pertain to investments in listed companies and government-issued bonds.

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. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations.

The table below shows the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	2017					
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 years**	**More than 5 years**	**Total**
Financial Assets						
Cash and cash equivalents	**₱520,567,774**	**₱5,551,130,632**	**₱–**	**₱–**	**₱–**	**₱6,071,698,406**
Loans and receivables:						
Due from:						
Western Union	**509,934,285**	**–**	**–**	**–**	**–**	**509,934,285**
Business partners	**66,560**	**–**	**–**	**–**	**–**	**66,560**
Trade receivable	**2,370,752**	**28,911,129**	**–**	**–**	**–**	**31,281,881**
Receivable from related parties and employees	**–**	**1,141,939**	**–**	**–**	**–**	**1,141,939**
Others*	**–**	**2,793,048**	**854,034**	**503,735**	**–**	**4,150,817**
Financial assets at FVPL:						
Quoted:						
UITF	**–**	**1,501,906,115**	**–**	**–**	**–**	**1,501,906,115**
Derivative assets	**–**	**129,488,695**	**–**	**–**	**–**	**129,488,695**
Corporate bonds	**–**	**70,041,215**	**11,541,715**	**123,920,800**	**56,300,750**	**261,804,480**
Government bonds	**–**	**9,227,639**	**13,312,500**	**472,950,000**	**133,150,000**	**628,640,139**
AFS investments:						
Quoted:						
Mutual funds	**–**	**2,262,699,318**	**–**	**–**	**–**	**2,262,699,318**
Equity securities	**–**	**1,059,871,230**	**–**	**–**	**–**	**1,059,871,230**
Corporate bonds	**–**	**2,300,331**	**3,060,078**	**72,689,086**	**24,449,763**	**102,499,258**
Government bonds	**–**	**4,020,869**	**3,739,244**	**38,132,610**	**106,339,516**	**152,232,239**
Other noncurrent assets:						
Deposits	**–**	**18,873,830**	**–**	**–**	**–**	**18,873,830**
	₱1,032,939,371	**₱10,642,405,990**	**₱32,507,571**	**₱708,196,231**	**₱320,240,029**	**₱12,736,289,192**
Financial Liabilities						
Accounts payable and other liabilities:						
Due to sub-agents and brokers	**₱304,755,992**	**₱–**	**₱–**	**₱–**	**₱–**	**₱304,755,992**
Accrued expenses	**–**	**142,438,342**	**–**	**465,217**	**–**	**142,903,559**
Trade payable	**–**	**85,836,652**	**–**	**–**	**–**	**85,836,652**
Notes payable	**–**	**2,850,136,622**	**–**	**–**	**–**	**2,850,136,622**
Others**	**–**	**5,088,779**	**–**	**–**	**934,478**	**6,023,257**
Financial liabilities at FVPL:						
Derivative liability	**–**	**1,800,000**	**–**	**–**	**–**	**1,800,000**
	₱304,755,992	**₱3,085,300,395**	**₱–**	**₱465,217**	**₱934,478**	**₱3,391,456,082**

**Others include advances to suppliers and other non-trade receivables.*
***Excludes statutory payables.*

	2016					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Financial Assets						
Cash and cash equivalents	₱374,061,924	₱3,545,751,853	₱–	₱–	₱–	₱3,919,813,777
Loans and receivables:						
Due from:						
Western Union	523,250,009	–	–	–	–	523,250,009
Broker	–	5,501	–	–	–	5,501
Business partners	50,250	–	–	–	–	50,250
Trade receivable	124,619,668	–	–	–	–	124,619,668
Receivable from related parties and employees	–	1,039,083	–	–	–	1,039,083
Others*	1,397,918	786,965	2,598,182	–	–	4,783,065
Financial assets at FVPL:						
Corporate bonds						
UITF	236,066,750	–	–	–	–	236,066,750
Derivative assets	–	30,399,534	–	–	–	30,399,534
Corporate bonds	–	209,478	3,405,003	82,705,795	57,980,950	144,301,226
AFS investments:						
Quoted:						
Equity securities	–	567,795,548	–	–	–	567,795,548

(Forward)

	2016					
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Government bonds	₱–	₱337,778	₱3,200,000	₱25,600,000	₱164,000,000	₱193,137,778
Corporate bonds	–	25,509,870	8,187,336	159,473,981	60,897,678	254,068,865
Mutual funds	–	3,153,880,301	–	–	–	3,153,880,301
Other noncurrent assets:						
Deposits	–	–	300,800	22,524,955	–	22,825,755
	₱1,259,446,519	₱7,325,715,911	₱17,691,321	₱290,304,731	₱282,878,628	₱9,176,037,110
Financial Liabilities						
Accounts payable and other liabilities:						
Due to sub-agents and brokers	₱163,033,209	₱–	₱–	₱–	₱–	₱163,033,209
Accrued expenses	50,000	28,283,620	81,241,578	–	–	109,575,198
Trade payable	32,262,505	31,483,733	–	–	–	63,746,238
Notes payable	–	585,555,238	–	–	–	585,555,238
Others**	–	817,950	–	–	934,478	1,752,428
Financial liabilities at FVPL:						
Derivative liability	–	6,602,875	–	–	–	6,602,875
	₱195,345,714	₱652,743,416	₱81,241,578	₱–	₱934,478	₱930,265,186

**Others include advances to suppliers and other non-trade receivables.*
***Excludes statutory payables.*

The Group has committed lines of credit that it can access to meet its liquidation needs. As of December 31, 2017 and 2016, the Group has available credit lines with various banks amounting to ₱2.34 billion and ₱1.99 billion, respectively.

As of December 31, 2017 and 2016, PEMI also has a shared credit line with PEFI, PPSE, PDIF and PDYF amounting to ₱330.00 million and ₱30.00 million, respectively.

Market risk
Market risk is the risk of change in fair value of financial instruments from fluctuation in market prices (price risk), foreign exchange rates (currency risk) and market interest rates (interest rate risk), whether such change in price is caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Group is exposed to the risk that the value of the Group's financial assets will be adversely affected by the fluctuations in the price level or volatility of one or more of the said assets. The two main components of the risks recognized by the Group are systematic risk and unsystematic risk.

Systematic risk is the variability in price caused by factors that affect all securities across all markets (e.g. significant economic or political events). Unsystematic risk, on the other hand, is the variability in price caused by factors which are specific to the particular issuer (corporation) of the debt or equity security. Through proper portfolio diversification, this risk can be minimized as losses on one particular debt or equity security may be offset by gains in another.

To further mitigate these risks, the Group ensures that the investment portfolio is adequately diversified taking into consideration the size of the portfolio.

a. *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 and financial assets at FVPL. The Group maintains several United States dollar (US$) accounts to manage its foreign currency denominated transactions.

The Group's financial assets and liabilities denominated in U.S. dollar are as follows:

	2017	2016
Cash and cash equivalents	**US$80,691,194**	US$63,456,252
Receivables	**10,616,182**	10,544,860
AFS investments	**1,668,254**	3,352,464
	92,975,630	77,353,576
Due from (to) sub-agents	**(1,119,846)**	(1,123,219)
Net foreign currency-denominated assets	**91,855,784**	76,230,357
Currency forwards	**(95,800,000)**	(84,050,000)
Net exposure	**(US$3,944,216)**	(US$7,819,643)

In translating the foreign currency denominated assets and liabilities into peso amounts, the exchange rates used are ₱49.93 to US$1 and ₱49.72 to US$1 as of December 31, 2017, and December 31, 2016, respectively.

The following table presents the impact on the Group's income before income tax due to change in the fair value of its monetary assets and liabilities, brought about by a reasonably possible change in the U.S. dollar to Peso exchange rate, with all other variables held constant. There is no other impact on equity other than those affecting earnings.

	2017		2016		2015	
	Change in Foreign Exchange Rate	**Effect on Net Income before Tax**	Change in Foreign Exchange Rate	Effect on Net Income before Tax	Change in Foreign Exchange Rate	Effect on Net Income before Tax
Increase	**+0.97%**	**(₱1,917,177)**	+0.67%	(₱2,604,911)	+0.64%	(₱2,004,005)
Decrease	**-0.97%**	**1,917,177**	-0.67%	2,604,911	-0.64%	2,004,005

The increase in U.S. dollar to Peso rate means weaker Peso against the U.S. dollar while decrease in U.S. dollar to Peso exchange rate means stronger Peso against the U.S. dollar.

b. *Equity price risk*

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

The table below demonstrates the sensitivity to a reasonably possible change in Philippine stock index (PSEi), with all other variables held constant, of the Group's equity classified as AFS equity investments, as of December 31, 2017, 2016 and 2015:

	2017		2016		2015	
	% Variance on Equity Price	**Effect on OCI**	% Variance on Equity Price	Effect on OCI	% Variance on Equity Price	Effect on OCI
Increase	**+3.807%**	**₱26,229,104**	+2.437%	₱8,559,898	+2.451%	₱9,955,147
Decrease	**-3.807%**	**(26,229,104)**	-2.437%	(8,559,898)	-2.451%	(9,955,147)

The table below demonstrates how the change in the investment portfolio of the Group's mutual funds affects other comprehensive income with a reasonably possible change in the NAVPs for the years ended December 31, 2017, 2016 and 2015 with all other variables held constant:

Mutual fund investments

	2017		2016		2015	
	% Variance on Equity Price	**Effect on OCI**	% Variance on Equity Price	Effect on OCI	% Variance on Equity Price	Effect on OCI
Increase	**+3.858%**	**₱72,766,266**	+2.437%	₱20,740,322	+1.908%	₱17,015,109
Decrease	**-3.858%**	**(72,766,266)**	-2.437%	(20,740,322)	-1.908%	(17,015,109)

UITF investments

	2017		2016		2015	
	% Variance on Equity Price	**Effect on Equity**	% Variance on Equity Price	Effect on Equity	% Variance on Equity Price	Effect on Equity
Increase	**+3.858%**	**₱18,311,653**	+2.437%	₱2,967,932	+1.908%	₱4,308,082
Decrease	**-3.858%**	**(18,311,653)**	-2.437%	(2,967,932)	-1.908%	(4,308,082)

c. *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 investments.

The Group's market risk policy requires it to manage interest rate risk by maintaining appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest-bearing financial assets.

The following table demonstrates the sensitivity of the Group's equity to a reasonably possible change in interest rates for the year ended December 31, 2017, 2016 and 2015:

AFS investments

	2017	2016	2015
Change in Basis Points	**Effect on OCI**	Effect on OCI	Effect on OCI
Increase by 100	**(₱7,116,041)**	(₱15,638,511)	(₱94,380,873)
Decrease by100	**11,398,359**	19,243,452	89,957,513

FVPL investments

	2017	2016	2015
Change in Basis Points	**Effect on Profit/Loss**	Effect on Profit/Loss	Effect on Profit/Loss
Increase by 100	**(₱24,830,568)**	(₱6,284,039)	(₱–)
Decrease by100	**29,962,396**	719,891	–

As of December 31, 2017 and 2016, the Group's interest- bearing financial assets and liabilities have fixed interest rates. As such the Group's exposure to interest rate risks is minimal. Fixed interest rates range from 4.13% to 8.00% as of December 31, 2017 and 2016.

d. *Market/price risk*
The potential for an investor to experience losses due to changes in the market prices of investments.

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.

As of December 31, 2017 and 2016, the Group has no interest-bearing long-term debt. The debt-to-equity ratio as of December 31, 2017 and 2016 are as follows:

	2017	2016
Total debt (a)	**₱3,464,077,199**	₱988,441,178
Total equity (b)	**9,226,933,378**	8,130,932,594
Debt-to-equity ratio (a/b)	**0.38:1:00**	0.12:1:00

5. Fair Value of Financial Instruments

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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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

Cash and cash equivalents, receivables, 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 and liabilities at FVPL
Fair values are generally based on quoted market prices. For the Group's equity investments fair values are determined based on quoted closing prices or bid price in cases when the former is not available in the PSE for 2017 and 2016, respectively. For the Group's fixed income investments, fair values are determined based quoted market prices, if available. If market prices are not readily available or if the securities are not traded in an active market, fair values are estimated using 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. For the Group's UITFs and mutual funds, fair values are estimated using published net asset value (NAV).

Rental deposit
Fair values are estimated using the discounted cash flow methodology using the interpolated benchmark rates. The discount rate used in estimating the fair values of rental deposits ranges from 2.08% to 3.52% and from 2.08% to 3.52% as of December 31, 2017 and 2016, respectively.

Derivative instruments (included under financial assets and liabilities 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 quoted prices.

The fair value hierarchy as of December 31, 2017 and 2016 follows:

	2017				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value					
Financial assets at FVPL (Note 9)					
Quoted:					
UITF	**₱1,501,906,115**	**₱–**	**₱1,501,906,115**	**–**	**₱1,501,906,115**
Derivative assets	**129,488,695**	**–**	**129,488,695**	**–**	**129,488,695**
Government bonds	**506,720,829**	**445,564,906**	**61,155,923**	**–**	**506,720,829**
Corporate bonds	**217,829,928**	**–**	**217,829,928**	**–**	**217,829,928**
AFS investments (Note 10)					
Quoted:					
Equity securities	**1,059,871,230**	**1,059,871,230**	**–**	**–**	**1,059,871,230**
Government bonds	**108,903,593**	**47,747,670**	**61,155,923**	**–**	**108,903,593**
Corporate bonds	**87,613,868**	**35,548,264**	**52,065,604**	**–**	**87,613,868**
Mutual funds	**2,262,699,318**	**–**	**2,262,699,318**	**–**	**2,262,699,318**
	₱5,875,033,576	**₱1,588,732,070**	**₱4,286,301,506**	**₱–**	**₱5,875,033,576**
Financial liabilities at FVPL					
Derivative liabilities (Note 17)	**₱1,800,000**	**₱–**	**₱1,800,000**	**₱–**	**₱1,800,000**
Assets for which fair values are disclosed					
Rental deposits	**₱20,046,114**	**₱–**	**₱–**	**₱20,046,114**	**₱20,046,114**

	2016				
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value					
Financial assets at FVPL (Note 9)					
UITF	₱236,066,750	₱–	₱236,066,750	₱–	₱236,066,750
Derivative assets	30,399,534	–	30,399,534	–	30,399,534
Corporate bonds	117,097,858	117,097,858	–	–	117,097,858
AFS investments (Note 10)					
Quoted:					
Equity securities	567,795,548	567,795,548	–	–	567,795,548
Government bonds	133,191,000	133,191,000	–	–	133,191,000
Corporate bonds	219,186,847	219,186,847	–	–	219,186,847
Mutual funds	3,153,880,301	–	3,153,880,301	–	3,153,880,301
	₱4,457,617,838	₱1,037,271,253	₱3,420,346,585	₱–	₱4,457,617,838
Financial liabilities at FVPL					
Derivative liabilities (Note 17)	₱6,602,875	₱–	₱6,602,875	₱–	₱6,602,875
Assets for which fair values are disclosed					
Rental deposits	₱19,484,075	₱–	₱–	₱19,246,557	₱19,246,557

Fair value measurement of financial assets and liabilities under level 2 were based on interest rates and yield curves, implied volatilities and foreign exchange spread. There are no financial assets and financial liabilities categorized under Level 3 in fair value hierarchy. As of December 31, 2017 and 2016, there are no transfers into and out of Level 1 and Level 2 fair value hierarchy.

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.

Subject to the management agreements with the respective funds, PEMI shall manage the resources and operations of the funds. The services contemplated include Investment and re-investment of the assets of the entities in accordance with the investment policies or guidelines and in conformity with the entities' prospectus(es) and applicable Philippine laws and regulations; Preparation and submission of such information and data relating to economic conditions, industries, business, corporations, or securities. Coordination of the activities of, and extension of all necessary cooperation or assistance to, the custodian bank, the auditors and the legal counsel of the entities, without prejudice to the direct responsibility of such firms to the entities; Representation with Government offices, instrumentalities and agencies, including all work required in registering the Funds' securities, obtaining proper licenses and permits-complying with other legal requirements including those requirements relevant to PEMl's own operations, and submitting regular reports to various government agencies; Accounting, bookkeeping, clerical and other administrative services in

the ordinary conduct of the Funds' activities, other than those services provided by the custodian, the auditors and the legal counsel; Transactions with stockbrokers for the account of the entities in connection with PEMI's investment and reinvestment of the funds' assets; In addition, PEMl shall provide such office space and other administrative facilities as the entities shall reasonably require in the ordinary conduct of its business.

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 management income earned from a specific fund managed by the Group comprised 16%, 22% and 21% of the Group's total revenue, in 2017, 2016 and 2015, respectively.

The following table presents earnings and other information of operating segments presented in accordance with PFRS:

	2017				
	Investment Holdings	Remittance Services	Mutual Fund Management	Eliminations	Consolidated
Earnings Information					
Revenues	**₱462,061,965**	**₱527,426,653**	**₱285,410,787**	**(₱11,910,000)**	**₱1,262,989,405**
Cost of services and sales	**8,905,200**	**339,970,422**	**59,584,114**	**–**	**408,459,736**
Depreciation and amortization	**2,020,941**	**12,650,652**	**5,031,325**	**–**	**19,702,918**
Interest expense	**4,773,316**	**23,849,147**	**–**	**–**	**28,622,463**
Segment income before tax	**508,760,455**	**159,514,013**	**159,981,083**	**–**	**828,255,551**
Provision for income tax	**16,819,611**	**47,894,950**	**57,739,469**	**–**	**122,454,030**
Net income attributable to continuing operations	**491,940,844**	**111,619,063**	**102,241,614**	**–**	**705,801,521**
Other Information					
Segment assets	**7,683,650,394**	**4,098,892,708**	**923,233,010**	**(14,079,723)**	**12,691,696,389**
Segment liabilities	**165,115,101**	**3,156,789,273**	**144,342,548**	**(2,169,723)**	**3,464,077,199**
Costs to acquire property and equipment	**56,815,548**	**12,675,115**	**71,550,860**	**–**	**141,041,523**
Net cash flows provided by					
Operating activities	**(1,757,490,933)**	**340,113,116**	**114,453,387**	**–**	**(1,302,924,430)**
Investing activities	**990,756,667**	**(5,102,050)**	**163,899,140**	**–**	**1,149,553,757**
Financing activities	**(584,095,000)**	**2,819,176,316**	**–**	**–**	**2,235,081,316**

	2016				
	Investment Holdings	Remittance Services	Mutual Fund Management	Eliminations	Consolidated
Earnings Information					
Revenues	₱47,997,905	₱580,917,709	₱326,589,631	(₱128,113,790)	₱827,391,455
Cost of services and sales	5,662,375	345,621,767	31,209,045	–	382,493,187
Depreciation and amortization	1,777,374	14,718,849	3,465,430	–	19,961,653
Interest expense	1,393,590	19,097,979	–	–	20,491,569
Segment income before tax	19,955,564	150,674,064	160,530,694	–	331,160,322
Provision for income tax	(9,499,729)	38,712,411	47,924,753	–	77,137,435
Net income attributable to continuing operations	29,455,291	111,961,655	112,605,941	–	254,022,887
Other Information					
Segment assets	7,477,715,839	1,097,707,622	791,408,521	(247,458,210)	9,119,373,772
Segment liabilities	991,513,692	261,712,752	597,559,472	(862,344,738)	988,441,178
Costs to acquire property and equipment	1,218,750	6,227,812	65,462	–	7,512,024
Net cash flows provided by					
Operating activities	298,642,128	66,824,946	52,419,850	–	417,886,924
Investing activities	1,321,691,882	8,191,045	(51,722,985)	–	1,278,159,942
Financing activities	584,095,000	(336,265,648)	–	–	247,829,352

	2015					
	Investment Holdings	Remittance Services	Mutual Fund Management	Internet Online-Related Products and Services	Eliminations	Consolidated
Earnings Information						
Revenues	₱117,271,377	₱548,755,517	₱290,018,763	₱–	(₱78,771,459)	₱877,274,198
Cost of services and sales	5,456,967	339,710,366	91,327,343	–	–	436,494,676
Depreciation and amortization	1,184,638	18,189,296	465,412	–	–	19,839,346
Interest expense	–	–	10,798,646	–	–	10,798,646
Segment income before tax	63,406,498	126,351,576	207,273,163	–	(78,771,459)	318,259,778
Provision for income tax	296,631	37,127,408	67,803,581	–	95,515	105,323,135
Net income attributable to continuing operations	82,815,349	89,224,169	61,418,133	–	(20,520,008)	212,937,643
Net income attributable to discontinued operations	–	–	–	126,890,984	–	126,890,984
Total consolidated net income	82,815,349	89,224,169	61,418,133	126,890,984	(20,520,008)	339,828,627
Other Information						
Segment assets	7,216,478,466	1,321,143,047	579,965,659	–	(451,821,791)	8,665,765,381
Segment liabilities	15,974,020	570,630,566	114,399,132	–	(982,893)	700,020,825
Costs to acquire property and equipment	–	9,715,817	876,784	–	–	10,592,601
Net cash flows provided by (used in):						
Operating activities	(712,333,829)	132,591,164	166,310,337	(2,143,216)	72,155,088	(343,420,456)
Investing activities	995,125,381	(7,614,086)	(134,226,784)	1,398,563	(69,870,306)	784,812,768
Financing activities	–	(65,742,966)	–	–	–	(65,742,966)

Eliminating entries pertaining to revenue represents the elimination of accumulated market gains from the Parent Company's mutual fund investments in PBF and PFCFF. Eliminating entries for segment assets is the net effect of eliminating the cost of the Parent Company's investment in its subsidiaries, and any intercompany receivables. While eliminating entry for segment liabilities represent elimation of intercompany payables.

PEMI qualifies as a subsidiary with significant non-controlling interest. The financial information under the mutual fund management segment pertains solely to PEMI.

7. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱172,510,647**	₱240,249,705
Cash in banks	**348,057,127**	133,812,219
Short-term investments	**5,535,144,872**	3,545,738,360
	₱6,055,712,646	₱3,919,800,284

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. These short-term investments earn annual interest rates ranging from 0.20% to 3.63% in 2017 and from 0.13% to 2.25% in 2016. Interest income from cash and cash equivalents amounted to ₱77.41 million, ₱37.06 million and ₱11.07 million in 2017, 2016 and 2015, respectively (Note 19).

8. Receivables

This account consists of:

	2017	2016
Due from:		
Western Union	**₱509,934,285**	₱523,250,009
Business partners	**66,560**	50,250
Broker	**–**	5,501
Trade receivables	**57,894,783**	151,232,570
Accrued interest receivable	**18,651,729**	8,825,647
Receivable from related parties and employees	**1,428,743**	1,325,887
Others	**12,041,550**	13,702,480
	600,017,650	698,392,344
Less: Allowance for credit losses	**34,790,440**	34,790,440
	₱565,227,210	₱663,601,904

Due from Western Union represents pay-outs of e-Business for fund transfers and remittance services, which were not yet reimbursed by Western Union as of December 31, 2017 and 2016.

Due from business partners include receivables from counterparty banks for cash to be delivered to the branches.

As of December 31, 2016, 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.

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.
- Trade receivables include receivables from advertising and web development services which are normally collectible within two to four months after billing is made. This also includes management and commission income earned from the funds managed by the Group.
- Other receivables are all short-term in nature.

There is no movement in allowance for credit losses in 2017 and 2016. The details of the account are as follows:

	Trade receivables	**Receivables from related parties and employees**	**Others**	**Total**
Balance	₱26,612,902	₱286,804	₱7,890,734	₱34,790,440
Specific assessment	₱26,612,902	₱286,804	₱7,890,734	₱34,790,440

9. Financial Assets at FVPL

This account consists of investments in:

	2017	2016
Quoted:		
UITF	**₱1,501,906,115**	₱236,066,750
Government bonds	**506,720,829**	–
Corporate bonds	**144,315,419**	44,330,235
Derivative assets	**129,488,695**	30,399,534
Unquoted:		
Corporate bond	**73,514,509**	72,767,623
	₱2,355,945,567	₱383,564,142

A UITF is a product offering of banks in which investors buy units of participation in the said fund. UITF are held for trading and are redeemable any time at the prevailing net asset value per share (NAVPS). As of December 31, 2017 and 2016 the Group owns 1,155.31 million and 184.43 million shares of a peso money market fund at ₱1.30 per share and ₱1.28 per share, respectively.

In 2017, 2016 and 2015, interest income from FVPL investment - government and corporate bonds amounted to ₱7.11 million, ₱5.12 million and ₱0.33 million, respectively. While interest income earned from FVPL investments - unquoted corporate bonds amounted to ₱3.03 million, ₱0.26million and nil in 2017, 2016 and 2015, respectively.

Unrealized market loss from FVPL debt securities amounted to ₱4.31 million, ₱6.50 million and nil as of December 31, 2017, 2016 and 2015, respectively. In 2017, 2016 and 2015, unrealized market gain or loss from UITF investments amounted to a gain of ₱4.31 million, a loss of ₱0.74 million and a gain of ₱0.74 million, respectively. While unrealized market gain from derivative assets amounted to ₱129.49 million, ₱30.40 million and ₱26.05 million as of December 31, 2017, 2016 and 2015, respectively.

Government bonds
Government bonds consist of peso-denominated securities which earn interest ranging from 3.63% to 8.00% in 2017. The Group did not hold any government bonds in 2016 and 2015.

Corporate bonds
Quoted corporate bonds are peso-denominated securities issued by the private companies. The securities earn interest ranging from 4.20% to 5.38% and 4.21% in 2017 and 2016, respectively. The Group did not hold any corporate bonds in 2015.

Unquoted corporate bond is a peso-denominated security issued by a private company. Interest rate from this security ranges from 4.11% to 4.25% and 4.11% to 4.25%

Derivative instruments
The Group's outstanding currency forward contracts have an aggregate notional amount of US$135.8 million and US$84.00 million as of December 31, 2017 and 2016, respectively. The forward contract rates in 2017 and 2016 range from ₱49.90 to ₱52.31 and ₱49.56 to ₱49.96, respectively, per US$1. As of December 31, 2017 and 2016, the Group is in a net sell US dollar position.

The movements in the Group's derivative instruments are as follows:

	2017	2016
Balance at beginning of year		
Derivative assets	**₱30,399,534**	₱26,053,300
Derivative liabilities	**(6,602,875)**	(4,166,700)
	23,796,659	21,886,600
Fair value changes	**215,738,795**	36,931,759
Settled transactions	**(111,846,759)**	(35,021,700)
	103,892,036	1,910,059
Balance at end of year		
Derivative assets	**129,488,695**	30,399,534
Derivative liabilities (Note 17)	**(1,800,000)**	(6,602,875)
	₱127,688,695	₱23,796,659

In 2017 and 2016, settled transactions amounted to ₱111.85 million and ₱35.02 million, respectively. Settled transactions are recognized in 'Realized foreign exchange gain (loss)' (Note 11).

Trading and investment securities gain (loss) from financial assets at FVPL consists of:

	2017	2016	2015
Realized gain (loss) from sale/redemption of:			
UITF	**₱276,030,609**	₱89,855,128	₱5,686,007
Bonds	**961,532**	(15,436,734)	–
	276,992,141	74,418,394	5,686,007
Changes in fair value of:			
UITF	**1,289,365**	(306,201)	2,689,867
Bonds	**(4,314,341)**	(7,155,148)	–
	(3,024,976)	(7,461,349)	2,689,867
	₱273,967,165	₱66,957,045	₱8,375,874

Trading and investment securities gains (losses) consists of:

	2017	2016	2015
Financial assets at FVPL	**₱273,967,165**	₱66,957,045	₱8,375,874
AFS investments (Note 10)	**92,380,157**	(106,572,843)	134,691,333
Impairment loss (Note 10)	**–**	(33,709,667)	(201,000,010)
	₱366,347,322	(₱73,325,465)	(₱57,932,803)

10. **AFS Investments**

This account consists of investments in:

	2017	2016
Quoted:		
Equity securities	**₱1,059,871,230**	₱601,505,215
Mutual funds	**2,262,699,318**	3,153,880,301
Government bonds	**108,903,593**	219,186,847
Corporate bonds	**87,613,868**	133,191,000
Unquoted:		
Golf shares	**570,000**	570,000
Equity securities	**239,312**	239,312
	3,519,897,321	4,108,572,675
Less: Allowance for impairment losses	**(239,312)**	(239,312)
Impairment loss	**–**	(33,709,667)
	₱3,519,658,009	₱4,074,623,696

Equity Securities
Quoted equity securities pertain to investments in stocks listed in the PSE. Impairment loss recognized in equity securities investments amounted to nil and ₱33.71 million as of December 31, 2017 and 2016, respectively (Note 19).

Unquoted equity securities represent investments in stocks of a company delisted in the PSE. The Group assessed these unquoted equity securities to be impaired and provided full allowance for impairment losses amounting ₱0.24 million as of December 31, 2017 and 2016.

Dividend income earned from AFS equity securities amounted to ₱17.76 million, ₱21.61 million and ₱43.15 million in 2017, 2016 and 2015, respectively (Notes 9 and 19).

Mutual Funds
Mutual funds represent investment in shares of:

	2017	2016
Philequity Fund, Inc. (PEFI)	**₱1,925,068,052**	₱1,948,980,759
Philequity Dividend Yield Fund, Inc. (PDYF)	**225,342,113**	1,145,960,793
Philequity PSE Index Fund, Inc. (PPSE)	**112,289,153**	58,938,749
	₱2,262,699,318	₱3,153,880,301

Movement in the Group's mutual fund investment is shown below:

	2017	2016
Beginning	**₱3,153,877,301**	₱3,629,570,385
Subscription	**293,441,712**	15,559,814
Redemption	**(1,387,964,548)**	(401,781,643)
Revaluation	**203,344,853**	(89,471,255)
	₱2,262,699,318	₱3,153,877,301

Investment in shares of PEFI, PDYF, PBFI, PCFCI and PPSE are valued at net asset value per share (NAVPS). NAVPS is computed by dividing net assets (total assets less total liabilities) by the total number of redeemable shares issued and outstanding as of reporting date.
Net cumulative unrealized gain on mutual funds amounted to ₱0.92 billion and ₱0.84 billion as of December 31, 2017 and 2016, respectively.

Government Bonds
Government bonds consist of peso-denominated and US$-denominated securities which earn interest ranging from 4.13% to 8.00%, 3.50% to 8.00% and 3.70% to 6.40% in 2017, 2016 and 2015, respectively.

Corporate Bonds
Quoted corporate bonds are peso-denominated and US$-denominated securities issued by the private companies. Peso-denominated corporate bonds earn interest at 6.80%, 5.44% and 5.44% to 7.28% in 2017, 2016 and 2015, respectively. US$-denominated bonds earn interest ranging from 4.38% to 6.50%, 5.50% to 7.45% and 4.13% to 7.45% in 2017, 2016 and 2015, respectively.

In 2017, 2016 and 2015, interest income from AFS investments - quoted government and corporate bonds amounted to ₱17.20 million, ₱27.70 million and ₱53.31 million, respectively (Note 19).

Trading and investment securities gains - net recognized from the sale of AFS investments are as follows (Note 19):

	2017	2016	2015
Equity securities	**₱88,078,055**	(₱83,149,781)	₱28,941,197
Government bonds	**(2,181,017)**	(24,505,967)	104,583,878
Corporate bonds	**3,093,480**	(2,056,869)	1,166,258
Mutual funds	**3,389,639**	3,139,774	–
	₱92,380,157	(₱106,572,843)	₱134,691,333

Movement of cumulative net unrealized gain on changes in the fair values of AFS investments, which are presented as separate component of equity in the consolidated statements of financial position are as follows:

	2017	2016	2015
Balance at beginning of year	**₱797,847,053**	₱889,337,190	₱1,708,822,934
Fair value changes taken to equity	**483,370,285**	(164,353,313)	(483,794,401)
Impairment loss	**–**	(33,709,667)	(201,000,010)
Amounts taken to profit or loss (Note 19)	**(92,380,157)**	106,572,843	(134,691,333)
Net changes in fair value of AFS investments	**390,990,128**	(91,490,137)	(819,485,744)
Balance at end of year	**₱1,188,837,181**	₱797,847,053	₱889,337,190

11. Foreign Exchange Income

Foreign exchange income includes gains and losses from the translation of the Group's US$ denominated cash and cash equivalent, financial assets at FVPL and AFS investments.

Breakdown of the foreign exchange income is presented below:

	2017	2016	2015
Realized Foreign Exchange Gain (Loss)			
Derivative assets (Note 9)	**₱111,846,759**	₱35,021,700	₱7,403,475
Money changing	**842,040**	(78,599,125)	(4,423,994)
	₱112,688,799	(₱43,577,425)	₱2,979,481
Unrealized Foreign Exchange Gain (Loss)			
Cash and cash equivalents	**(₱103,523,554)**	₱98,709,204	(₱27,106,804)
Derivative assets	**129,488,695**	30,399,534	26,053,300
	₱25,965,141	₱129,108,738	(₱1,053,504)

Realized foreign exchange gains (losses) pertains to the amount realized upon the settlement of the Group's derivative assets and realized gain from the buy and sell of US$ denominated currency.

Unrealized foreign exchange gain pertains to the translated gains from settlement of short-term deposits and the translated revaluation of derivative assets at FVPL at year-end.

12. Discontinued Operations

Yehey! was incorporated in the Philippines and registered with the SEC on June 10, 1998. Yehey! is engaged in the business of internet online-related products relating to database search engine, such as, but not limited to, conceptualizing, designing, illustrating, processing and editing web sites. It is also engaged in other pre-production and post-production work on web sites in the internet and to sell and market said products in the form of advertising of finished products in the domestic or export market. Yehey!'s shares are publicly traded in the Philippine Stock Exchange.

On July 7, 2015, the Parent Company entered into a Sale and Purchase Agreement (SPA) with third party (the buyers) for the sale of the entire Yehey! shares owned by the Parent Company. Under the SPA, the closing of the transfer of the Sale Shares is subject to and conditioned upon the conduct and completion of a mandatory tender offer as well as the payment of the purchase price. The conditions have been complied with on October 15, 2015 and the Parent Company recognized an income amounting ₱124.11 million. Pursuant to the SPA, the new BOD of the Yehey! approved on October 30, 2015 the assignment of the non-cash assets and liabilities of Yehey! to the Parent Company. Total amount assigned is ₱2.69 million representing Yehey!'s net liabilities as of October 30, 2015.

The following table shows the reconciliation of the Group's consolidated income for the year ended December 31, 2015 arising from the disposal of investments in Yehey!:

Revenue	₱21,172,370
Gain from sale of Yehey!	124,110,475
Expenses	(17,613,147)
Taxes	(778,714)
Income after tax from discontinued operations	₱126,890,984

Attributable to:	
Equity holders of the Parent Company	₱84,953,544
Non-controlling interests	41,937,440
	₱126,890,984

The net cash flows incurred by Yehey! for the year ended December 31, 2015 are as follows:

Net cash flows provided by (used in):	
Operating activities	(₱2,143,216)
Investing activities	1,398,563
Effect of exchange rate changes on cash and cash equivalents	277,005
Net cash outflow	(₱467,648)

The major classes of assets and liabilities of Yehey! as of the date the Group lost control are as follows:

ASSETS	
Cash and cash equivalents	₱255,675,925
Prepaid expenses and other current assets	1,519,485
	₱257,195,410

LIABILITIES	
Accounts payable and other current liabilities	₱944,393

As of the date of the sale, the selling price for Yehey!'s shares amounted to ₱287.77 million, while carrying amount of the investment amounted to ₱163.67 million, resulting in a gain of ₱124.10 million. Net cash received amounted to ₱32.10 million (composed of gross receipts of ₱287.77 million less cash and cash equivalents of Yehey! amounting to ₱255.68 million).

13. Prepaid Expenses and Other Current Assets

This account consists of:

	2017	2016
Input value added tax	**₱8,685,788**	₱4,295,695
Prepaid expenses	**2,516,490**	1,721,749
Others	**1,103,435**	4,094,590
	12,305,713	10,112,034
Less allowance for impairment losses	**3,097,721**	3,097,721
	₱9,207,992	₱7,014,313

Prepaid expenses pertains to prepayments for office rent, utilities, insurance, and taxes. Others include leased branch spaces construction and renovation deposits paid by the Group in 2017 and 2016, respectively.

There has been no movement in allowance for credit losses in 2017 and 2016.

14. Investment in an Associate

Details of investments in an associate follow:

Acquisition cost:	
Fifth Agency Unified Services, Inc. (FAUSI)	₱300,000
Allowance for impairment	(180,772)
	₱119,228

There are no movements in the allowance for impairment on investment in FAUSI.

Investment in an associate represents e-Business' 25.00% ownership in FAUSI. FAUSI was incorporated in the Philippines on August 10, 2004 and started commercial operations on April 4, 2005. FAUSI is engaged in electronic commerce and trading, through the internet-based facilities and other on-line transactions, including but not limited to the development and marketing of goods and services and electronic value or debit cards.

On February 4, 2008, the BOD has decided to stop and wind down FAUSI's operations effective March 2008. In 2012, the BOD approved the liquidation of FAUSI. On November 13, 2015, the Board of Directors (BOD) decided to shorten FAUSI's term of existence until November 15, 2015. This was approved by the stockholders on December 4, 2015.

The following table presents the financial information of FAUSI (amounts in thousands):

Year	Total Assets	Total Liabilities	Loss
2017	**₱916**	**₱641**	**(₱41)**
2016	916	641	(41)
2015	916	641	(41)

FAUSI has no noncurrent assets and noncurrent liabilities as of December 31, 2017 and 2016.

FAUSI is a private company and there is no quoted market price available for its shares.

In June 2017, FAUSI has obtained their clearance from the Bureau of Internal Revenue (BIR) to distribute and settle remaining assets and liabilities.

As of December 31, 2017, FAUSI has not received SEC clearance to distribute and settle its remaining assets and liabilities.

15. **Property and Equipment**

This account consists of:

	2017						
	Office Condominium	**Leasehold Improvements**	**Transportation Equipment**	**Furniture and Fixtures**	**Server and Network Equipment**	**Office Improvements**	**Total**
Cost							
Balance at beginning of year	**₱6,232,000**	**₱155,662,231**	**₱28,610,729**	**₱140,746,628**	**₱8,099,460**	**₱3,699,329**	**₱343,050,377**
Additions	**123,589,032**	**4,136,011**	**7,954,465**	**5,362,015**	**–**	**–**	**141,041,523**
Disposals	**–**	**–**	**(5,095,608)**	**(404,512)**	**–**	**–**	**(5,500,120)**
Balance at end of year	**129,821,032**	**159,798,242**	**31,469,586**	**145,704,131**	**8,099,460**	**3,699,329**	**478,591,780**
Accumulated Depreciation and Amortization							
Balance at beginning of year	**6,232,000**	**150,475,969**	**22,606,808**	**137,132,276**	**7,984,654**	**3,214,561**	**327,646,268**
Depreciation and amortization (Notes 20 and 21)	**–**	**4,230,402**	**3,102,852**	**6,449,116**	**110,145**	**321,216**	**14,213,731**
Disposals	**–**	**–**	**(5,095,597)**	**(404,491)**	**–**	**–**	**(5,500,088)**
Balance at end of year	**6,232,000**	**154,706,371**	**20,614,063**	**143,176,901**	**8,094,799**	**3,535,777**	**336,359,911**
Net Book Value	**₱123,589,032**	**₱5,091,871**	**₱10,855,523**	**₱2,527,230**	**₱4,661**	**₱163,552**	**₱142,231,869**

	2016						
	Office Condominium	**Leasehold Improvements**	**Transportation Equipment**	**Furniture and Fixtures**	**Server and Network Equipment**	Office Improvements	**Total**
Cost							
Balance at beginning of year	₱6,232,000	₱154,224,731	₱27,639,050	₱137,543,634	₱8,033,998	₱3,699,329	₱337,372,742
Additions	–	1,437,500	2,033,286	3,975,776	65,462	–	7,512,024
Disposals	–	–	(1,061,607)	(772,782)	–	–	(1,834,389)
Balance at end of year	6,232,000	155,662,231	28,610,729	140,746,628	8,099,460	3,699,329	343,050,377
Accumulated Depreciation and Amortization							
Balance at beginning of year	6,232,000	142,962,403	21,072,127	131,913,639	7,787,831	2,893,343	312,861,343
Depreciation and amortization (Notes 20 and 21)	–	7,513,566	2,277,806	5,991,402	196,823	321,218	16,300,815
Disposals	–	–	(743,125)	(772,765)	–	–	(1,515,890)
Balance at end of year	6,232,000	150,475,969	22,606,808	137,132,276	7,984,654	3,214,561	327,646,268
Net Book Value	₱–	₱5,186,262	₱6,003,921	₱3,614,352	₱114,806	₱484,768	₱15,404,109

Office condominium pertains to office units acquired by the Company which were turned-over in December 2017.

Fully depreciated assets are retained in the account until they are no longer in use and no further depreciation and amortization are charged against current operations. As of December 31, 2017 and 2016, the cost of fully depreciated assets still being used in operations amounted to ₱299.18 million, respectively.

Depreciation and amortization for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Property and equipment	**₱14,213,731**	₱16,300,815	₱19,297,665
Software and website costs (Note 16)	**5,489,187**	3,660,838	541,681
	19,702,918	19,961,653	19,839,346
Discontinued operations - property and equipment	–	–	893,743
	₱19,702,918	₱19,961,653	₱20,733,089

16. **Other Noncurrent Assets**

This account consists of:

	2017	2016
Receivable from sale of investment	**₱96,592,600**	₱96,592,600
Rental and other deposits	**22,726,416**	22,524,955
Software and website costs	**10,058,995**	13,651,215
Deferred input VAT	**9,098,600**	–
Goodwill	**3,654,985**	3,654,985
Others	**242,413**	242,413
	142,374,009	136,666,168
Less: Allowance for credit and impairment losses	**100,667,601**	96,815,015
	₱41,706,408	₱39,851,153

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 Parent Company sold its investment in Lucky Star in 2001 for ₱96.59 million (a company incorporated to operate off-front on betting stations in the Philippines). 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. There has been no movement in this account in 2017 and 2016.

Rental and other deposits represent payments required under the lease contracts of EBSI and PEMI's branches with the lessor as a security deposit for the rented premises. This will be returned upon termination of the lease agreement. For 2017, the Group has assessed that rental deposits amounting to ₱3.85 million is deemed to be uncollectible. Accordingly, the Group has provided for an allowance for the uncollectible rental deposit.

The goodwill recognized in the consolidated statement of financial position pertains to the acquisition cost of PEMI in 1994. In 2017 and 2016, no provision for impairment was provided for the recognized goodwill.

The movements in software and website costs follow:

	2017	2016
Cost		
Balance at beginning of year	**₱29,480,196**	₱12,759,954
Additions	**1,896,967**	16,720,242
Balance at end of year	**31,377,163**	29,480,196
Accumulated Amortization		
Balance at beginning of year	**15,828,981**	12,168,143
Amortization (Note 15)	**5,489,187**	3,660,838
Balance at end of year	**21,318,168**	15,828,981
	₱10,058,995	₱13,651,215

The movements in allowance for credit and impairment losses in 2017 and 2016 are as follows:

	2017	2016
Beginning balance	**₱96,815,015**	₱96,815,015
Impairment for rental deposits	**3,852,586**	–
	₱100,667,601	₱96,815,015

17. **Accounts Payable and Other Current Liabilities**

This account consists of:

	2017	2016
Due to sub-agents and brokers	**₱304,755,992**	₱163,033,209
Accrued expenses	**142,903,559**	109,575,198
Trade	**85,836,652**	63,746,238
Output value added tax	**9,091,347**	3,861,755
Derivative liabilities (Note 9)	**1,800,000**	6,602,875
Documentary stamp tax	**7,353,939**	6,788,319
Others	**13,385,652**	13,038,936
	₱565,127,141	₱366,646,530

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. Due from sub-agents arises from money transfer services and are shown net of related payables to the same sub-agents. Sub-agent accounts with net payable balances are shown under 'Accounts payable and other current liabilities' in the consolidated statement of financial position.
- Accrued expenses consists of accruals for profit sharing costs, vacation leave and sick leave conversion, insurance, security services, cash delivery services, utilities, media buys and others.
- Trade payables, accrued expenses and other payables are normally settled on a 60 to 90-day term.
- Other payables include withholding taxes 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.

18. Notes Payable

In 2017, the Group availed of various unsecured US$ denominated short-term loans from different counterparty banks with terms ranging from 1 to 30 days. Annual interest rates range from 2.30% to 4.00%.

The amount of short-term loans and their outstanding balances follows:

	2017	2016
Loans outstanding at beginning of year	**₱584,095,000**	₱316,500,000
Loan availments	**15,597,760,000**	14,721,140,250
Loan payments	**(13,339,155,000)**	(14,453,545,250)
Loans outstanding at end of year	**₱2,842,700,000**	₱584,095,000

The Group recognized interest expense (included in 'Interest expense') amounting to ₱28.62 million, ₱20.49 million and ₱10.80 million from short-term loans in 2017, 2016 and 2015, respectively.

19. Revenues

This account consists of:

	2017	2016	2015
Trading and investment securities gains (losses) - net (Note 9)	**₱366,347,322**	(₱73,325,465)	(₱57,932,803)
Money transfer service income	**316,876,435**	317,938,573	311,528,380
Service income	**259,844,354**	273,490,480	285,559,385
Share in foreign exchange differential	**132,585,944**	115,683,759	105,804,407
Interest income (Notes 7, 9 and 10)	**104,753,106**	70,170,607	65,118,138
Money changing gain	**41,752,968**	80,004,129	104,341,596
Income from business partners	**23,071,620**	21,821,659	19,705,482
Dividend income (Note 10)	**17,757,656**	21,607,713	43,149,613
	₱1,262,989,405	₱827,391,455	₱877,274,198

Total interest income follows:

	2017	2016	2015
Cash and cash equivalents (Note 7)	**₱77,408,450**	₱37,061,898	₱11,070,460
AFS investments (Note 10)	**17,200,634**	27,697,597	53,314,138
Financial assets at FVPL (Note 9)	**10,143,316**	5,380,463	331,670
Others	**706**	30,649	401,870
	104,753,106	70,170,607	65,118,138
Discontinued operations	**–**	–	3,971,949
	₱104,753,106	₱70,170,607	₱69,090,087

PEMI acts as the fund manager of the Funds. As fund manager of the Funds, PEMI is entitled to the following, pursuant to the Management and Distribution Agreement dated March 14, 2003 and entered into with the Funds which is effective year on year unless terminated by both parties:

a. Management income of a maximum of 1.50% per annum is computed based on daily net asset value (NAV) of the Funds. On a monthly basis, PEMI bills the Fund management fee based on the average monthly computed NAV, payable the following month. The NAV shall be determined in accordance with the procedures agreed upon by the parties.

   In 2017, since these Funds have not yet launched their capital shares to the public, charging of management fee for PSGF, PRF, PBF and PFCFF has not been made effective by the Group.

   In November 11, 2017, the respective BOD of the corresponding Funds decided to shorten the corporate life of PSGF, PRF, PBF and PFCFF until December 31, 2017.

b. The Funds shall remit to PEMI for sales commission of a maximum of 3.50% of the gross investment based on tiered-front end sales schedules charged to shareholders. This is recorded as ‘Receivables’ (Note 8) and collectible the following month.

PEMI recognized management and commission income (presented as ‘Service income’) amounting ₱259.84 million, ₱273.49 million and ₱285.56 million in 2017, 2016 and 2015, respectively.

20. Cost of Services

This account consists of:

	2017	2016	2015
Personnel costs	**₱131,177,125**	₱123,366,330	₱123,555,002
Service and commission expense	**108,965,711**	89,626,969	141,873,827
Rent	**44,482,235**	47,840,162	45,610,329
Outside services	**34,901,056**	33,022,855	31,914,467
Cash delivery services	**27,851,320**	26,178,043	27,207,760
Communication, light and water	**18,912,207**	18,250,126	18,529,074
Depreciation and amortization (Notes 15 and 16)	**10,120,522**	11,775,080	14,551,437
Supplies	**9,390,351**	10,301,455	11,202,294
Taxes and licenses	**7,191,887**	7,056,893	6,950,815
Impairment for rental deposit	**3,852,586**	–	–
Repairs and maintenance	**3,160,606**	4,038,609	5,822,547
Advertising	**2,720,242**	3,188,302	3,712,191
Travel and transportation	**2,544,773**	2,847,709	2,464,954
Entertainment, amusement and recreation	**2,506,146**	3,896,034	2,076,967
Retirement expense (Note 24)	**682,969**	604,472	330,466
Others	**–**	500,148	692,546
	₱408,459,736	₱382,493,187	₱436,494,676

In 2016 and 2015, the Group reclassified expenses which are directly attributable to its branch operations from ‘General and administrative expenses’ (Note 21) to ‘Cost of Services’ (COS) amounting to ₱345.62 million and ₱339.71 million, respectively, to properly present the expenses for its nature.

Nature of the 'Cost of services' are as follows:

- Services and commission fees refer to sales load and trail commissions paid to distributors and agents of the Group. The trail commission is based on the average net asset value (NAV) held by the distributor or agent in the relevant fund managed by the Group. This also include amount paid to the Group's sub-agents as their share in the commission income earned by the Group from WU. Included herein as well is the commission fee paid by the Group to its broker upon sale of its equity securities.
- Branch personnel costs consist of trainings and seminar costs, basic salaries, overtime pay and other employee benefits.
- Outside services pertain to payroll payments for contracted security guards and utilities/maintenance workers of all branches.
- Rent and utilities expense represents payments for the leased spaces, telephone and telefax expenses and internet charges of the Group's branches.
- Cash delivery services represent charges paid to contracted banks for the delivery of cash to several branches of the Group.

21. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Legal and professional fees	**₱42,446,858**	₱84,051,396	₱9,875,386
Personnel costs	**28,283,502**	26,766,501	27,835,394
Transportation and communication	**13,479,235**	13,015,089	11,603,929
Taxes and licenses	**12,211,408**	15,628,635	22,866,393
Rent and utilities	**11,189,780**	7,800,864	7,841,225
Depreciation and amortization (Notes 15 and 16)	**9,582,396**	8,186,574	5,287,909
Membership fees and other dues	**2,876,257**	3,033,442	2,873,099
Office supplies	**2,728,354**	3,122,627	3,532,723
Repairs and maintenance	**2,595,627**	1,198,263	1,688,988
Retirement expense (Note 24)	**1,961,614**	1,986,990	2,084,199
Commission expense	**1,378,140**	691,904	5,806,999
Entertainment, amusement and recreation	**904,194**	4,015,547	2,461,884
Advertising	**873,230**	16,517	389,541
Insurance	**814,028**	1,766,839	704,735
Outside services	**805,828**	865,980	884,256
Provision for credit and impairment losses	**–**	–	24,805
Others	**5,389,398**	6,893,891	9,452,977
	₱137,519,849	₱179,041,059	₱115,214,442

Nature of the 'General and administrative expenses' are as follows:

- Head office personnel costs consist of trainings and seminar costs, basic salaries, overtime pay and other employee benefits.

- Rent and utilities expense represents payments for the leased office spaces, telephone and telefax expenses and internet charges of the Group.

22. Other Income - Net

This account consists of:

	2017	2016	2015
Gain (loss) from sale of property and equipment	**₱1,214,254**	(₱213,626)	₱727,148
Miscellaneous income	–	456,604	840,219
	₱1,214,254	₱242,978	₱1,567,367

23. Lease Commitments

e-Business and PEMI leases their office spaces and the space occupied by e-Business branches with varying periods of up to 5 years, and are renewable on such terms and conditions mutually acceptable to both parties. Rent expense charged to operations amounted to ₱55.67 million, ₱55.64 million and ₱53.45 million in 2017, 2016 and 2015, respectively.

The minimum annual rental commitments under the aforementioned lease agreements are as follows:

	2017	2016	2015
Within one year	**₱58,760,742**	₱56,029,143	₱23,503,406
After one year but not more than five years	**83,072,897**	75,202,375	19,367,528
	₱141,833,639	₱131,231,518	₱42,870,934

24. Retirement Plan

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 and Investment Services Group of a commercial bank.

The amounts of net defined benefit liability of the Group in the consolidated statements of financial position follow:

	2017	2016
Retirement assets - net	**₱1,887,460**	₱3,557,944
Retirement liabilities	**(6,208,505)**	(5,084,330)
	(₱4,321,045)	(₱1,526,386)

The breakdown of 'Retirement expense' follows:

	2017	2016	2015
General and administrative expenses (Note 21)	**₱1,961,614**	₱1,986,990	₱2,084,199
Cost of services and sales (Note 20)	**682,969**	604,472	330,466
	₱2,644,583	₱2,591,462	₱2,414,665

Remeasurement gains (losses) related to pension plans to be recognized in OCI follow:

	2017	2016	2015
Actuarial changes in actuarial assumptions in the defined benefit obligation	**₱–**	₱3,575,305	₱–
Actuarial changes in actuarial assumptions in return on plan assets	**(150,076)**	247,094	(151,575)
Income tax effect	**45,023**	(1,146,720)	45,473
Effect of deconsolidation	**–**	–	55,550
	(₱105,053)	₱2,675,679	(₱50,552)

The latest actuarial report is as of December 31, 2016.

The following table shows the actuarial assumptions as of December 31, 2017, 2016 and 2015 used in determining the retirement benefit obligation of the Group.

	December 31, 2017		
	Average remaining working life	**Discount rate**	**Future salary Increase**
Parent Company	6.99 years	5.45%	4.00%
e-Business	3.79 years	5.61%	4.00%
PEMI	3.96 years	5.60%	4.00%

	December 31, 2016		
	Average remaining working life	Discount rate	Future salary Increase
Parent Company	6.99 years	5.21%	5.00%
e-Business	3.79 years	5.41%	5.00%
PEMI	3.96 years	5.36%	5.00%

	December 31, 2015		
	Average remaining working life	Discount rate	Future salary Increase
Parent Company	4 years	5.00%	4.00%
e-Business	8 years	4.87%	4.00%
PEMI	3 years	4.92%	4.00%

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

	2017	2016
Cash and cash equivalents		
Time deposit	**₱5,342,249**	₱5,631,230
Savings deposit	**42,335**	1,596
Investment in mutual funds - FVPL	**10,790,812**	9,788,602
AFS investments		
Investment in UITF	**260,812**	260,812
Accumulated market gains - UITF	**229,485**	247,094
Accrued interest income	**11,130**	2,050
	16,676,823	15,931,384
Trustee fee payable	**(39,705)**	(37,040)
	₱16,637,118	₱15,894,344

The carrying values of the plan assets approximate fair values as of December 31, 2017, 2016 and 2015. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2017					
	Parent Company		e-Business		PEMI	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(₱240,027)**	**+1.00%**	**(₱1,617,219)**	**+1.00%**	**(₱289,975)**
	-1.00%	**270,938**	**-1.00%**	**1,975,320**	**-1.00%**	**345,812**
Future salary increase	**+1.00%**	**₱267,915**	**+1.00%**	**1,961,594**	**+1.00%**	**343,178**
	-1.00%	**(243,873)**	**-1.00%**	**(1,641,773)**	**-1.00%**	**(294,243)**
Estimated working lives	**+10.00%**	**(9,140)**	**+10.00%**	**(697,734)**	**+10.00%**	**(48,025)**
	-10.00%	**9,140**	**-10.00%**	**697,734**	**-10.00%**	**48,025**

	December 31, 2016					
	Parent Company		e-Business		PEMI	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱240,027)	+1.00%	(₱1,617,219)	+1.00%	(₱289,975)
	-1.00%	270,938	-1.00%	1,975,320	-1.00%	345,812
Future salary increase	+1.00%	₱267,915	+1.00%	1,961,594	+1.00%	343,178
	-1.00%	(243,873)	-1.00%	(1,641,773)	-1.00%	(294,243)
Estimated working lives	+10.00%	(9,140)	+10.00%	(697,734)	+10.00%	(48,025)
	-10.00%	9,140	-10.00%	697,734	-10.00%	48,025

	December 31, 2015							
	Parent Company		e-Business		Yehey!		PEMI	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱224,949)	+1.00%	(₱1,558,505)	+ 1.00%	(₱162,904)	+ 1.00%	(₱185,177)
	-1.00%	224,949	-1.00%	1,558,505	- 1.00%	162,904	- 1.00%	185,177
Future salary increase	+1.00%	222,622	+1.00%	1,556,328	+ 1.00%	162,990	+ 1.00%	185,021
	-1.00%	(222,622)	-1.00%	(1,556,328)	- 1.00%	(162,990)	- 1.00%	(185,021)
Estimated working lives	+10.00%	(10,225)	+10.00%	(623,942)	+ 10.00%	(74,351)	+ 10.00%	(29,550)
	-10.00%	10,225	-10.00%	623,942	- 10.00%	74,351	- 10.00%	29,550

Shown below is the maturity analysis of the Group's undiscounted benefit payments:

	December 31, 2017		December 31, 2016		December 31, 2015	
	More than 10 to 15 years	**More than 15 years**	More than 10 to 15 years	More than 15 years	More than 10 to 15 years	More than 15 years
Parent Company	**₱7,508,855**	**₱–**	₱7,508,855	₱–	₱7,288,078	₱–
e-Business	**12,630,143**	**13,158,599**	12,630,143	13,158,599	12,143,165	13,786,340
PEMI	**6,241,657**	**18,231,121**	6,241,657	18,231,121	2,972,869	5,989,019

The movement in the Group's retirement liability, present value of defined benefit obligation and fair value of plan assets follows:

2017

		Net benefit cost in consolidated statement of income			Remeasurements in other comprehensive income						
	January 1, 2017	**Current service cost**	**Net interest**	**Subtotal**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Actuarial changes arising from deviations of experience from assumptions**	**Adjustment on Remeasurement**	**Subtotal**	**December 31, 2017**
Present value of defined benefit obligation	**₱17,420,730**	**₱2,570,423**	**₱967,010**	**₱3,537,433**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱20,958,163**
Fair value of plan assets	**(15,894,344)**	**–**	**(892,850)**	**(892,850)**	**150,076**	**–**	**–**	**–**	**–**	**150,076**	**(16,637,118)**
Net defined benefit liability	**₱1,526,386**	**₱2,570,423**	**₱74,160**	**₱2,644,583**	**₱150,076**	**₱–**	**₱–**	**₱–**	**₱–**	**₱150,076**	**(₱4,321,045)**

2016

		Net benefit cost in consolidated statement of income			Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Net interest	Subtotal	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Actuarial changes arising from deviations of experience from assumptions	Adjustment on Remeasurement	Subtotal	December 31, 2016
Present value of defined benefit obligation	₱17,678,243	₱2,478,812	₱838,980	₱3,317,792	₱–	₱–	₱793,386	(₱4,375,552)	₱6,862	(₱3,575,305)	₱17,420,730
Fair value of plan assets	(14,920,920)	–	(726,330)	(726,330)	(247,094)	–	–	–	–	(247,094)	(15,894,344)
Net defined benefit **liability**	₱2,757,323	₱2,478,812	₱112,650	₱2,591,462	(₱247,094)	₱	₱793,386	(₱4,375,552)	₱6,862	(₱3,822,399)	₱1,526,386

25. **Capital Stock**

The details of this account as of December 31, 2017, 2016 and 2015 are shown below:

	2017		2016		2015	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized shares (at par value of ₱1 per share)	**5,000,000,000**	**₱5,000,000,000**	5,000,000,000	₱5,000,000,000	2,250,000,000	₱2,250,000,000
Issued shares, Beginning	**4,335,181,766**	**₱4,335,181,766**	2,235,390,633	₱2,235,390,633	2,235,390,633	₱2,235,390,633
Issuance of stock dividends	–	–	2,099,791,133	2,099,791,133	–	–
Treasury stock	**(135,599,500)**	**(190,460,934)**	(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	₱2,099,791,133	₱2,044,929,699

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

Date of SEC Approval	Type of Shares	Authorized Number of Shares
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

Date of SEC Approval	Percentage
December 18, 2015	100%
January 12, 2009	25%

c. Number of Shareholders

Year End	Number of shareholders
December 31, 2017	616
December 31, 2016	621
December 31, 2015	629

In the consolidated financial statements, a portion of the Group's retained earnings corresponding to the accumulated net earnings of the subsidiaries amounting to ₱3,186.00 million, ₱951.40 million and ₱756.72 million as of December 31, 2017, 2016 and 2015, respectively, is not available for dividend declaration. This accumulated equity in net earnings becomes available for dividend declaration upon receipt of dividends from the investees.

Also, the Group's retained earnings corresponding to the cost of treasury stocks amounting to ₱190.46 million is not available for dividend declaration as of December 31, 2017, 2016 and 2015.

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 same date as the approval of the stockholders. The said dividends were distributed on February 3, 2017.

Increase in Authorized Capital Stock
On June 20, 2017, the BOD and two-thirds (2/3) of the outstanding capital of the Company approved the increase in the authorized capital stock from 400,000,000 shares with par value of ₱1.00 per share in 2016 to 800,000,000 shares with par value of ₱1.00 per share in 2017. The SEC approved the increase in authorized capital stock on January 23, 2018.

Of the said increase, 400,000,000 shares of capital stock has been actually subscribed and paid by the existing shareholders of the Corporation by way of stock dividends to be paid out of the retained earnings which was declared on June 20, 2017.

Dividend declaration of subsidiaries
On February 3, 2016, the BOD of PEMI 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 were distributed on March 14, 2016.

On November 21, 2014, the BOD of PEMI approved the declaration of stock dividends equivalent to a total of ₱76.50 million representing 765,000 shares at ₱100.00 par value per share. On March 18, 2015, two-thirds (2/3) of the outstanding capital of PEMI approved the declaration of stock dividends. The said dividends were paid on October 15, 2015 to all stockholders of record as of October 12, 2015.

26. Income Tax

Provision for current income tax represents the RCIT of the Parent Company, PEMI and e-Business.

Components of the net deferred tax assets and liabilities of the Group follow:

	2017	2016
Deferred tax liabilities on:		
Allowance for impairment and credit losses	**₱74,960**	₱74,960
Retirement assets	**(2,171,138)**	(2,216,161)
Unrealized foreign exchange gain	**(6,914,347)**	(4,636,380)
Net deferred tax liabilities	**(₱9,010,525)**	(₱6,777,581)

The Group's net deferred tax assets and liabilities as of December 31, 2017 are composed of the following:

	2017	2016
Deferred tax assets on:		
NOLCO	**₱10,900,587**	₱29,593,430
Allowance for impairment and credit losses	–	11,651,499
Deferred tax liability on unrealized foreign exchange gain	**(10,900,587)**	(29,407,930)
Net deferred tax assets	**₱–**	₱11,836,999

The details of deductible temporary differences and carryforward benefits of NOLCO and MCIT for which no deferred tax asset had been recognized in the consolidated statements of financial position as management believes that there will be no sufficient future taxable income against which these can be applied, are as follows:

	2017	2016
Accrued expenses	**₱111,739,902**	₱79,418,814
NOLCO	**29,818,457**	3,324,391
Retirement liabilities	**6,208,506**	1,525,299
Excess of MCIT over RCIT	**1,217,538**	362,341
	₱148,984,403	₱84,630,845

Movements in the Group's NOLCO and MCIT are as follows:

	2017		2016	
	NOLCO	**MCIT**	NOLCO	MCIT
Balance at beginning of year	**₱101,969,158**	**₱362,341**	₱44,056,612	₱259,160
Addition	**–**	**–**	59,188,101	103,181
Application/expiration/adjustment	**(65,257,606)**	**(106,449)**	(1,275,555)	–
Balance at end of year	**₱36,711,552**	**₱255,892**	₱101,969,158	₱362,341

Details of the Group's NOLCO are as follows:

Inception Year	Amount	Applied/Expired/ Adjustment	Balance	Expiry Year
2014	₱11,007,494	₱11,007,494	₱–	2017
2015	31,773,563	24,807,917	6,589,383	2018
2016	59,188,101	–	59,188,102	2019
	₱101,969,158	₱35,815,411	₱65,777,485	

Details of the Group's MCIT are as follows:

Inception Year	Amount	Applied/Expired/ Adjustment	Balance	Expiry Year
2014	₱106,449	₱106,449	₱–	2017
2015	152,711	–	152,711	2018
2016	103,181	–	103,181	2019
2017	961,646	–	961,646	2020
	₱1,323,987	₱106,449	₱1,217,538	

The reconciliation of income before income tax computed at the statutory income tax rate to the provision for income tax as shown in the consolidated statements of income is as follows:

	2017	2016	2015
Statutory income tax	**30.00%**	30.00%	30.00%
Income tax effects of:			
Tax-exempt and tax-paid income	**(16.16%)**	1.87%	(13.38%)
Changes in unrecognized deferred tax assets	**(0.93%)**	(10.34%)	18.59%
Nondeductible expenses	**1.67%**	1.54%	0.54%
Excess MCIT over RCIT	**0.11%**	0.10%	0.13%
Others	**0.02%**	0.12%	(2.79%)
Effective income tax	**14.71%**	23.39%	33.09%

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

27. 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.

The following table presents the balances of intercompany transactions of the Group as of and for the years ended December 31, 2017, 2016 and 2015:

		2017		
Related Party	**Category**	**Amount/ Volume**	**Outstanding Balance**	**Nature, terms and conditions**
FAUSI (Associate)	**Reimbursable expenses (Other receivables)**	**₱515,513**	**₱61,246**	**On demand, noninterest bearing and unsecured**

		2016		
Related Party	Category	Amount/ Volume	Outstanding Balance	Nature, terms and conditions
FAUSI (Associate)	Reimbursable expenses (Other receivables)	₱515,513	₱61,246	On demand, noninterest bearing and unsecured

		2015		
Related Party	Category	Amount/ Volume	Outstanding Balance	Nature, terms and conditions
FAUSI (Associate)	Reimbursable expenses (Other receivables)	₱99,902	₱576,759	On demand, noninterest bearing and unsecured

Terms and conditions of transactions with other related parties
Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. An assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates. In 2017, 2016 and 2015, no provisions for credit losses were provided for the related parties' transactions.

Remunerations of Directors and Other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Executive Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

The remuneration of the Group's key management personnel follows:

	2017	2016	2015
Salaries and wages	**₱26,342,234**	₱19,817,717	₱17,845,410
Retirement benefits	**2,828,213**	1,002,777	695,824
	₱29,170,447	₱20,820,494	₱18,541,234

28. **Basic/Diluted Earnings Per Share**

	2017	2016	2015
(a) Net income attributable to equity holders of the Parent Company	**₱654,276,428**	₱198,825,585	₱280,562,703
(b) Outstanding shares	**4,199,582,266**	4,199,582,266	4,199,582,266
(c) Basic/Diluted earnings per share (a/b)	**₱0.1558**	₱0.0473	₱0.0668
(a) Net income from continuing operations attributable to equity holders of the Parent Company	**₱654,276,428**	₱198,825,585	₱153,671,719
(b) Outstanding shares	**4,199,582,266**	4,199,582,266	4,199,582,266
(c) Basic/Diluted earnings per share (a/b)	**₱0.1558**	₱0.0473	₱0.0366
(a) Net income from discontinued operations attributable to equity holders of the Parent Company (Note 11)	**₱–**	₱–	₱126,890,984
(b) Outstanding shares	**4,199,582,266**	4,199,582,266	4,199,582,266
(c) Basic/Diluted earnings per share (a/b)	**₱–**	₱–	₱0.0302

As of December 31, 2017, 2016 and 2015, the Parent Company does not have dilutive potential common shares.

29. **Contingencies**

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities which are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its assets and liabilities as a result of these transactions.

30. **Approval for the Release of the Financial Statements**

The accompanying consolidated financial statements were approved and authorized for issuance by the Parent Company's BOD on March 15, 2018.

SGV
Building a better working world

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Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Vantage Equities, Inc.
15th Floor Phil. Stock Exchange, 5th Avenue corner 28th Street
Bonifacio Global City, Taguig City
Metro Manila, Philippines

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Vantage Equities, Inc. and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated March 15, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule No. 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado
Partner
CPA Certificate No. 89336
SEC Accreditation No. 0664-AR-3 (Group A),
March 16, 2017, valid until March 15, 2020
Tax Identification No. 160-302-865
BIR Accreditation No. 08-001998-73-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621321, January 9, 2018, Makati City

March 15, 2018

VANTAGE EQUITIES, INC. AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

Schedules Required under Securities Regulation Code Rule 68

SCHEDULE I
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2017

Vantage Equities, Inc.
15th Floor Philippine stock Exchange,
5th Avenue cor. 28th St. Bonifacio Global City,
Taguig City, Metro Manila, Philippines

Unappropriated retained earnings, beginning			₱1,928,935,979
Add:	Net income closed to retained earnings	491,940,877	
	Fair value adjustment (mark-to-market loss)	2,408,226	
Less:	Treasury shares	(190,460,934)	
	Unrealized foreign exchange gain	(36,335,289)	267,552,878
Retained earnings available for dividend distribution, ending			₱2,195,803,016

VANTAGE EQUITIES INC.
SCHEDULE IV
List of Effective Philippine Financial Reporting Standards and Interpretations
As of December 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS **Effective as of December 31, 2017**		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		X		
PFRSs Practice Statement Management Commentary		X		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			X
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	X		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			X
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			X
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			X
	Amendments to PFRS 1: Government Loans			X
	Amendments to PFRS 1: Borrowing Costs	X		
	Amendments to PFRS 1: Deletion of short term exemptions for first time adopters (January 1,2018)			X
PFRS 2	Share-based Payment			X
	Amendments to PFRS 2: Vesting Conditions and Cancellations			X
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			X
	Amendment to PFRS 2: Definition of Vesting Condition			X
	Amendments to PFRS 2: Share-based Payment, Classification and Measurement of Share-based Payment Transactions*		No early adopted	
PFRS 3 (Revised)	Business Combinations			X
	Amendments to PFRS 3: Measurement of non-controlling interests, replaced share-based payment awards, transitional arrangements for contingent consideration			X
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			X
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			X
PFRS 4	Insurance Contracts			X
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			X

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*			X
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			X
	Amendments to PFRS 5:Sale of a controlling interest in the subsidiary	X		
	Amendment to PFRS 5: Changes in methods of disposal			X
PFRS 6	Exploration for and Evaluation of Mineral Resources			X
PFRS 7	Financial Instruments: Disclosures	X		
	Amendments to PFRS 7: Required Dicslosures when interests in jointly controlled entities are accounted for at fair value through profit or loss, presentation of finance costs			X
	Amendments to PFRS 7: Transition			X
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	X		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	X		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	X		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	X		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	X		
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9		No early adopted	
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			X
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		No early adopted	
PFRS 8	Operating Segments	X		
	Amendments to PFRS 8: Disclosures of Segment Assets	X		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	X		
PFRS 9	Financial Instruments*		Not early adopted	
	Financial Instruments: Classification and Measurement of Financial Assets*		Not early adopted	
	Financial Instruments: Classification and Measurement of Financial Liabilities*		Not early adopted	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		Not early adopted	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Reissue to incorporate a hedge accounting chapter and permit early application of the requirements for presenting in other comprehensive income the "own credit" gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9*		Not early adopted	
	Financial Instruments (final version), incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition*		Not early adopted	
	Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39*		Not early adopted	
	Prepayment Features with Negative Compensation*		Not early adopted	
PFRS 10	Consolidated Financial Statements	**X**		
	Amendments to PFRS 10: Transition Guidance	**X**		
	Amendment to PFRS 10: Investment Entities: Applying the Consolidation Exception			**X**
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture*		Not early adopted	
PFRS 11	Joint Arrangements			**X**
	Amendments to PFRS 11: Transition Guidance			**X**
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			**X**
PFRS 12	Disclosure of Interests in Other Entities			**X**
	Amendments to PFRS 12: Transition Guidance			**X**
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			**X**
PFRS 13	Fair Value Measurement	**X**		
	Amendment to PFRS 13: Short-term Receivables and Payables	**X**		
	Amendment to PFRS 13: Portfolio Exception	**X**		
PFRS 14	Regulatory Deferral Accounts			**X**
PFRS 15	Revenue from Contracts with Customers*			**X**
PFRS 16	Leases*			**X**
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	**X**		
	Amendment to PAS 1: Capital Disclosures	**X**		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			**X**
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	**X**		
	Amendments to PAS 1: Clarification of the requirements for comparative information	**X**		
	Presentation of Financial Statements - Disclosure Initiative	**X**		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
PAS 2	Inventories			**X**
PAS 7	Statement of Cash Flows	**X**		
	PAS 7, Statement of Cash Flows, Disclosure Initiative	**X**		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	**X**		
PAS 10	Events after the Reporting Period	**X**		
PAS 11	Construction Contracts			**X**
PAS 12	Income Taxes	**X**		
	Amendment to PAS 12: Deferred Tax: Recovery of Underlying Assets	**X**		
	PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses	**X**		
PAS 16	Property, Plant and Equipment	**X**		
	Amendments to PAS 16: Classification of Servicing Equipment			**X**
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			**X**
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			**X**
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			**X**
PAS 17	Leases	**X**		
PAS 18	Revenue	**X**		
PAS 19 (Amended)	Employee Benefits	**X**		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	**X**		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			**X**
	Amendments to PAS 19: Discount Rate: Regional Market Issue			**X**
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			**X**
PAS 21	The Effects of Changes in Foreign Exchange Rates	**X**		
	Amendment: Net Investment in a Foreign Operation			**X**
PAS 23 (Revised)	Borrowing Costs	X		
PAS 24 (Revised)	Related Party Disclosures	**X**		
	Amendments to PAS 24: Key Management Personnel	**X**		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	**X**		
PAS 27 (Amended)	Separate Financial Statements	**X**		
	Amendments for Investment Entities			**X**

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 27: Equity Method in Separate Financial Statements			X
PAS 28 (Amended)	Investments in Associates and Joint Ventures	X		
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			X
	PAS 28, Measuring an Associate or Joint Venture at Fair Value*		Not early adopted	
	Amendment to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		Not early adopted	
	Long term interest in Associate and Joint Venture*		Not early adopted	
PAS 29	Financial Reporting in Hyperinflationary Economies			X
PAS 31	Interests in Joint Ventures			X
PAS 32	Financial Instruments: Disclosure and Presentation	X		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			X
	Amendment to PAS 32: Classification of Rights Issues			X
	Amendment to PAS 32: Presentation – Tax effect of distribution to holders of equity instrument			X
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	X		
PAS 33	Earnings per Share	X		
PAS 34	Interim Financial Reporting	X		
	Amendments to PAS 34: Significant events and transactions	X		
	Amendments to PAS 34: Interim financial reporting and segment information for total assets and liabilities	X		
	Amendment to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'	X		
PAS 36	Impairment of Assets	X		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets			X
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	X		
PAS 38	Intangible Assets	X		
	Amendments to PAS 38 : Proportionate Restatement of Accumulated Depreciation on Revaluation			X
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			X
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			X
PAS 39	Financial Instruments: Recognition and Measurement	X		
	Amendments to PAS 39: Transition and Initial Recognition of	X		

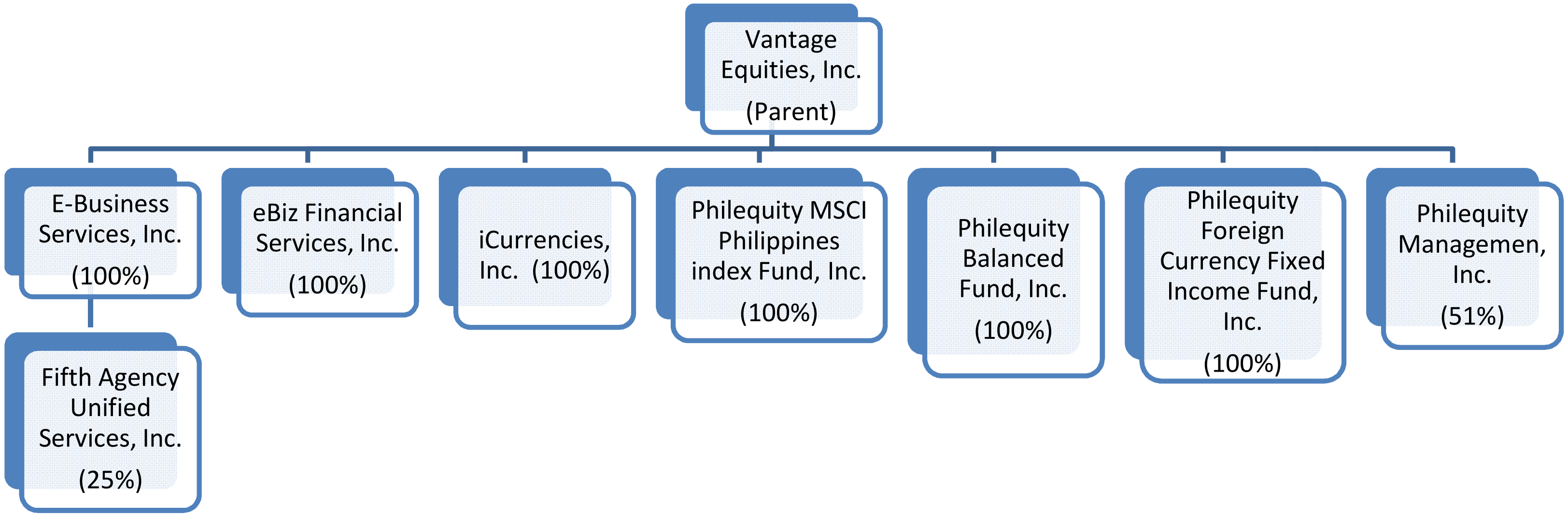
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Financial Assets and Financial Liabilities			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			X
	Amendments to PAS 39: The Fair Value Option	X		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			X
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			X
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			X
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			X
	Amendment to PAS 39: Eligible Hedged Items			X
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			X
PAS 40	Investment Property			X
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			X
	Amendment to PAS 40: Transfer of Investment Property*		Not early adopted	
PAS 41	Agriculture			X
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			X
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			X
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			X
IFRIC 4	*Determining Whether an Arrangement Contains a Lease*			X
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			X
IFRIC 6	*Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*			X
IFRIC 7	*Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*			X
IFRIC 8	*Scope of PFRS 2*			X
IFRIC 9	Reassessment of Embedded Derivatives			X

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			X
IFRIC 10	*Interim Financial Reporting and Impairment*			X
IFRIC 11	PFRS 2- Group and Treasury Share Transactions (Replaced by amendments to PFRS 2)			X
IFRIC 12	Service Concession Arrangements			X
IFRIC 13	Customer Loyalty Programmes			X
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			X
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			X
IFRIC 15	Agreements for the Construction of Real Estate*			X
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			X
IFRIC 17	Distributions of Non-cash Assets to Owners			X
IFRIC 18	Transfers of Assets from Customers			X
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			X
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			X
IFRIC 21	Levies			X
IFRIC 22	Foreign Currency Transactions and Advance Consideration*		Not early adopted	
IFRIC 23	Uncertainty over Income Tax Treatment*		Not early adopted	
SIC-7	Introduction of the Euro			X
SIC-10	Government Assistance - No Specific Relation to Operating Activities			X
SIC-12	Consolidation - Special Purpose Entities			X
	Amendment to SIC - 12: Scope of SIC 12			X
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			X
SIC-15	Operating Leases - Incentives			X

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			**X**
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			**X**
SIC-29	Service Concession Arrangements: Disclosures.			**X**
SIC-31	Revenue - Barter Transactions Involving Advertising Services			**X**
SIC-32	Intangible Assets - Web Site Costs			**X**

**Standards and interpretations which will become effective subsequent to December 31, 2017.*

SCHEDULE III
MAP SHOWING RELATIONSHIPS BETWEEN AND AMONG PARENT AND SUBSIDIARIES



VANTAGE EQUITIES, INC. and SUBSIDIARIES
Schedule Showing Financial Soundness Indicators in Two Comparative Periods

	December 31, 2017	December 31, 2016
Current Ratio	260.55%	509.33%
Debt-to-Equity Ratio	37.54%	12.16%
Asset-to-Equity Ratio	137.53%	112.16%
Return on Assets	6.47%	2.86%
Return on Equity	8.13%	3.16%
Debt Ratio	27.30%	10.84%

(i) Current Ratio [Current Assets/Current Liabilities]
(ii) Debt to Equity Ratio [Total Liabilities/Total Equity]
(iii) Asset to Equity Ratio [Total Assets/Total Equity]
(iv) Return on Assets [Net Income/Average Total Assets]
(v) Return on Equity [Net Income/Average Total Equity]
(vi) Debt Ratio [Total Liabilities/Total Assets]

Vantage Equities, Inc. and Subsidiaries
Schedule A – Financial Assets
December 31, 2017

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income accrued
AFS Investments:				
Quoted:				
Government bonds	₱97,021,838	₱82,986,927	₱82,986,927	₱–
Corporate bonds	83,698,943	113,530,534	113,530,534	912,463
Equity securities	97,745,047 shares	1,059,871,230	1,059,871,230	105,835,711
Mutual fund	239,978,886 shares	2,263,269,319	2,263,269,319	276,030,609
Unquoted:				
Golf shares	1 share	₱570,000	₱570,000	₱–
Equity securities	–	239,312	–	–
Financial Assets at FVPL:				
Quoted:				
Government bonds	₱511,767,240	₱506,720,829	₱506,720,829	₱–
Corporate bonds	150,000,000	105,776,553	105,776,553	961,532
UITF	1,154,774,094	1,501,906,115	1,501,906,115	3,389,639
Unquoted:				
Corporate bonds	73,600,206	73,514,509	73,514,509	–
Derivative asset	$95,800,000	$129,488,695	$129,488,695	$–

Vantage Equities, Inc. and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2017

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts Written-off	Current	Non-Current	Balance at end of period

None to Report.

Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.

Vantage Equities, Inc. and Subsidiaries
Schedule C - Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
December 31, 2017

Name of Debtor	Balance at beginning of period	Additions	Amounts Collected (i)	Amounts Written-off (ii)	Current	Non-Current	Balance at end of period
Philequity MSCI Index Fund, Inc.	₱–	₱2,841,895	₱–	₱–	₱2,841,895	₱–	₱2,841,895

(i) If collected was other than in cash, explain.
(ii) Give reasons to write-off.

Vantage Equities, Inc. and Subsidiaries
Schedule D - Intangible Assets - Other Assets
December 31, 2017

Description [i]	Beginning Balance	Additions at Cost [ii]	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) [iii]	Ending Balance
Goodwill	₱3,654,985	₱–	₱–	₱–	₱–	₱3,654,985
Software and website costs	₱13,651,215	₱1,896,968	₱5,489,187	₱–	₱–	₱10,058,997

(I) The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption Other Assets in the related balance sheet. Show by major classifications.

(II) For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

(III) If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

Vantage Equities, Inc. and Subsidiaries
Schedule E - Long-Term Debt
December 31, 2017

Title of issue and type of obligation [i]	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt' in related balance sheet [ii]	Amount shown under caption "Long-Term Debt" in related balance sheet [iii]	Interest Rate %	Maturity Date

None to report

[i] Include in this column each type of obligation authorized.
[ii] This column is to be totalled to correspond to the related balance sheet caption.
[iii] Include in this column details as to interest rates, amounts or numbers of periodic instalments, and maturity dates.

Vantage Equities, Inc. and Subsidiaries
Schedule F - Indebtedness to Related Parties
(included in the consolidated financial statement of position)
December 31, 2017

Name of Related Parties [i]	Balance at beginning of period	Balance at end of period [ii]

None to Report

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[i] The related parties named shall be grouped as in Schedule D. The information called shall be stated for any persons whose investments shown separately in such related schedule.

[ii] For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

Vantage Equities, Inc. and Subsidiaries
Schedule G - Guarantees of Securities of Other Issuers
December 31, 2017

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding (i)	Amount owned by person of which statement is filed	Nature of guarantee (ii)

None to Report

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.
(ii) There must be a brief statement of the nature of the guarantee, such as “Guarantee of principal and interest”, “Guarantee of Interest”, or “Guarantee of Dividends”. If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

Vantage Equities, Inc. and Subsidiaries
Schedule H - Capital Stock
December 31, 2017

(Absolute numbers of shares)

Title of Issue [(i)]	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties [(ii)]	Directors, officers and employees	Others [(iii)]
Common	5,000,000,000	4,199,582,266	None to Report	None to Report	1,018,373,856	None to Report

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(i) Include in this column each type of issue authorized
(ii) Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.
(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.