Peace and Equity Holdings Inc.

(A Wholly-owned Subsidiary of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.)

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

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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 Board of Directors
Peace and Equity Holdings Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Peace and Equity Holdings, Inc. (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 12 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Revenue Regulations No. 15-2010 requires the information presented in the notes to financial statements. The information is also required by Securities Regulation Code No. 68, as amended (2011). Such information is the responsibility of the management of Peace and Equity Holdings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Wenda Lynn M. Loyola

Wenda Lynn M. Loyola
Partner
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SEC Accreditation No. 1540-A (Group A),
March 8, 2016, valid until March 8, 2019
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February 15, 2016, valid until February 14, 2019
PTR No. 5908712, January 3, 2017, Makati City

March 15, 2017

PEACE AND EQUITY HOLDINGS INC.
(A Wholly-owned Subsidiary of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash	**₱804,036**	₱615,053
Receivables	**3,287**	20,455
Available-for-sale (AFS) financial assets (Note 4)	**120,626,521**	28,505,673
Other current assets	**222,922**	145,153
Total Current Assets	**121,656,766**	29,286,334
Noncurrent Asset		
Property and equipment (Note 5)	**155,189**	79,555
TOTAL ASSETS	**₱121,811,955**	₱29,365,889
LIABILITIES AND EQUITY		
Current Liabilities		
Due to Parent Company (Note 8)	**₱70,753**	₱120,653
Accounts payable and accrued expenses (Note 7)	**582,001**	120,522
Total Current Liabilities	**652,754**	241,175
Equity		
Capital stock (Note 6)	**125,000,000**	31,250,000
Retained earnings (Deficit)	**348,826**	(1,591,763)
Other comprehensive loss:		
Net revaluation losses on AFS financial assets (Note 4)	**(4,189,625)**	(533,523)
Total Equity	**121,159,201**	29,124,714
TOTAL LIABILITIES AND EQUITY	**₱121,811,955**	₱29,365,889

See accompanying Notes to Financial Statements.

PEACE AND EQUITY HOLDINGS INC.
(A Wholly-owned Subsidiary of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2016	2015
REVENUES		
Investment income (Note 4)	**₱8,598,682**	₱2,888,252
Interest income	**1,804**	2,389
	8,600,486	2,890,641
EXPENSES		
Personnel	**3,034,905**	1,028,712
Project appraisal	**1,400,050**	328,916
Provision for impairments losses - AFS (Note 4)	**675,214**	–
Meeting costs	**177,328**	146,416
Legal services	**156,981**	208,231
Professional fee	**64,680**	109,327
Depreciation (Note 5)	**60,127**	30,017
Training and seminars	**49,936**	261,333
Insurance	**43,691**	36,628
Taxes and licenses	**6,209**	12,148
Others	**243,898**	126,709
	5,913,019	2,288,437
INCOME BEFORE INCOME TAX	**2,687,467**	602,204
PROVISION FOR INCOME TAX (Note 9)	**(746,878)**	(147,284)
NET INCOME	**1,940,589**	454,920
OTHER COMPREHENSIVE INCOME (LOSS)		
Item to be reclassified to profit or loss in subsequent periods:		
Net unrealized valuation gain (loss) on AFS financial assets (Note 4)	**(3,656,102)**	(2,268,973)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱1,715,513)**	(₱1,814,053)

See accompanying Notes to Financial Statements.

PEACE AND EQUITY HOLDINGS INC.

(A Wholly-owned Subsidiary of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.)

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Capital Stock (Note 6)	**Other Comprehensive Income (Loss)** (Note 4)	**Retained Earnings (Deficit)**	**Total**
As at January 1, 2016	**₱31,250,000**	**(₱533,523)**	**(₱1,591,763)**	**₱29,124,714**
Issuance of capital stock	**93,750,000**	**–**	**–**	**93,750,000**
Net income	**–**	**–**	**1,940,589**	**1,940,589**
Net revaluation losses on AFS (Note 4)	**–**	**(3,656,102)**	**–**	**(3,656,102)**
As at December 31, 2016	**₱125,000,000**	**(₱4,189,625)**	**₱348,826**	**₱121,159,201**
As at January 1, 2015	₱31,250,000	₱1,735,450	(₱2,046,683)	₱30,938,767
Net income	–	–	454,920	454,920
Net revaluation losses on AFS (Note 4)	–	(2,268,973)	–	(2,268,973)
As at December 31, 2015	₱31,250,000	(₱533,523)	(₱1,591,763)	₱29,124,714

See accompanying Notes to Financial Statements.

PEACE AND EQUITY HOLDINGS INC.
(A Wholly-owned Subsidiary of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,687,467**	₱602,204
Adjustments for:		
Investment income (Note 4)	**(8,598,682)**	(2,888,252)
Interest income	**(1,804)**	(2,389)
Depreciation (Note 5)	**60,127**	30,017
Operating loss before working capital changes	**(5,852,892)**	(2,258,420)
Increase in:		
Receivables	**17,168**	(9,196)
Other current assets	**(77,769)**	(103,686)
Increase (decrease) in:		
Due to Parent Company	**(49,900)**	(58,315)
Accounts payable and accrued expenses	**461,479**	81,200
Net cash used in operations	**(5,501,914)**	(2,348,417)
Interest received	**1,804**	2,389
Income taxes paid	**(746,878)**	(147,284)
Net cash flows used in operating activities	**(6,246,988)**	(2,493,312)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	**8,598,682**	2,888,252
Increase in AFS financial assets	**(95,776,950)**	(1,441,446)
Additions to property and equipment (Note 5)	**(135,761)**	(51,318)
Net cash provided by (used in) investing activities	**(87,314,029)**	1,395,488
CASH FLOWS FROM A FINANCING ACTIVITY		
Proceeds from issuance of capital stock	**93,750,000**	–
INCREASE (DECREASE) IN CASH	**188,983**	(1,097,824)
CASH AT BEGINNING OF YEAR	**615,053**	1,712,877
CASH AT END OF YEAR	**₱804,036**	₱615,053

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Peace and Equity Holdings Inc. (the Company) is a wholly-owned subsidiary of Peace Equity Access for Community Empowerment (PEACE) Foundation Inc. (PEF; Parent Company), a foundation that provides financial, managerial, technical and policy assistance to non-governmental organizations (NGOs), people's organizations, community associations, social entrepreneurs, educational and research institutions, cooperatives and other similar groups or corporations.

The Company was registered with the Philippine Securities and Exchange Commission (SEC) on September 23, 2013 primarily to invest, purchase, own, hold in financially viable, primarily development-oriented social enterprises that have proven and/or offer innovative and high impact solutions to problems of poverty reduction such as enterprises on climate smart and sustainable agriculture, sustainable forestry, coastal resource management, eco-tourism, small and medium industries, alternative and renewable energy, information and communication technology and basic services and other similar endeavors, without engaging in business as an investment company, financing company or lending investor, broker and dealer of securities.

The registered office address of the Company is 69 Esteban Abada, Loyola Heights, Quezon City 1108, Philippines.

The financial statements of the Company as at December 31, 2016 and 2015 and for the years then ended were approved and authorized for issue by the Board of Directors (BOD) on March 15, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation
The financial statements have been prepared under the historical cost basis except for AFS financial assets that have been measured at fair value. The financial statements are presented in Philippine peso (₱), which is the Company's functional currency.

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

Exemption from the Mandatory Adoption of PFRS for Small and Medium-sized Entities (SMEs)
The preface to PFRS for SMEs provides that the PFRS for SMEs shall be used by entities that meet the definition of an SME, as set forth in the SEC En Banc Resolution dated August 13, 2009.

On December 11, 2009, the SEC issued a Notice that requires entities that meet the foregoing criteria shall apply the PFRS for SMEs for annual periods beginning January 1, 2010. The Company qualifies as an SME since the Company passed all the thresholds set in the criteria.

In accordance with the exemption set out in the Notice issued by the SEC on October 11, 2010, the Company opted to avail the exemption from adopting PFRS for SMEs and continue using full PFRS because it is a subsidiary of a Parent Company reporting under full PFRS.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
    - Amendment to PFRS 5, *Changes in Methods of Disposal*
    - Amendment to PFRS 7, *Servicing Contracts*
    - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    - Amendment to PAS 19, *Discount Rate: Regional Market Issue*
    - Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

- 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 new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The Company is currently assessing the impact of adopting this standard.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Deferred effectivity

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

Summary of Significant Accounting Policies

Cash
Cash represents cash with banks.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability on the statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Company commits to purchase or sell the asset.

Initial recognition of financial instruments

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities include transaction costs. The Company classifies its financial assets as loans and receivables. The Company classifies its financial liabilities as other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. The financial assets of the Company are of the nature of loans and receivable while its financial liabilities are of the nature of other financial liabilities. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every financial reporting date. Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Fair Value Measurement

The Company measures financial instruments such as AFS financial assets at fair value at each balance sheet date.

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

All assets and liabilities for which fair value is measured or disclosed in the Company's 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 Company's financial statements on a recurring basis, the Company 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 balance sheet date.

This accounting policy applies primarily to the Company's "AFS financial assets".

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

<u>Financial Assets</u>
The Company's financial assets are of the nature of loans and receivables and AFS financial assets. As of December 31, 2016 and 2015, the Company does not have any financial assets at FVPL and HTM investments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial assets or designated as at FVPL.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization, if any, is recognized as interest income in the statement of comprehensive income. The losses arising from impairment of receivables are recognized in profit or loss. The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectability of accounts.

Loans and receivables are classified as current assets when these are expected to be realized within twelve months from the balance sheet date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as noncurrent assets.

This accounting policy relates to the Company's "Cash", "Receivables" and "Other current assets".

AFS financial assets
AFS financial assets are those non-derivative financial assets which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. AFS financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include various funds held in trust by various fund managers which were invested to different financial assets such as special deposit accounts, debt and equity securities, unit investment trust funds and mutual funds.

After initial measurement, AFS financial assets are measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, and are reported as part of the "Revaluation gains (losses) on AFS" account in the Company statements of changes in fund balances. When the investment is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is recognized in profit or loss and is presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, except impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of "Investment income" in the Company statements of comprehensive income.

When the investment is disposed of, the cumulative gain or loss previously recognized in "Revaluation gains (losses) on AFS" is recognized as gain or loss in the Company statements of comprehensive income. Interest earned on holding AFS financial assets are reported as interest income using the EIR. Dividends earned on holding AFS equity are recognized in profit or loss when the right to the payment has been established.

AFS financial assets are classified as current if they are expected to be realized within twelve months after the financial reporting date. Otherwise, these are classified as noncurrent assets.

This category consists of debt and equity instruments presented as "AFS financial assets" in the Company's statements of financial position.

Financial liabilities
The Company's financial liabilities are of the nature of other financial liabilities. As of December 31, 2016 and 2015, the Company does not have any financial liabilities at FVPL.

Issued financial instruments or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity shares. The components of issued financial instruments that contain both liability and equity components 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, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. The EIR amortization is recognized in profit or loss.

Other financial liabilities are classified as current when these are expected to be settled within twelve months from the balance sheet date or the Company has no unconditional right to defer settlement for at least twelve months from the balance sheet date. Otherwise, these are classified as noncurrent liabilities.

This accounting policy applies primarily to the Company's "Due to parent company", "Accounts payable and accrued expenses" and other obligations that meet the above definition (other than liabilities covered by other accounting standards).

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company 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 Company and all of the counterparties.

Impairment of Financial Assets
The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or 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 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 debtors or a group of debtors 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 when observable data indicate that there is a measurable decrease in the estimated future cash flow, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced through the use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Company. The amount of the impairment loss is recognized in profit or loss.

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

If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets
For AFS financial assets, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of quoted equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. Significant' is 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 other comprehensive income - is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized in other comprehensive income.

<u>Derecognition of Financial Instruments</u>
Financial asset
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

Where the Company 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 of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability
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 profit or loss.

Cash
Cash includes cash on hand and in banks. Cash in banks earns interest at the prevailing bank deposit rates.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and any allowance for impairment loss.

The initial cost of *property and equipment* comprises its purchase price or construction cost, including import duties, nonrefundable purchase taxes, estimated cost of dismantlement or restoration, capitalized interest during construction period and any directly attributable costs of bringing the asset to its working condition and location for its intended use such cost includes the cost of replacing part of such *property and equipment* when the cost is incurred if the recognition criteria is met. Expenditures incurred after the *property and equipment* have been put into operations, such as repairs and maintenance, are normally charged to expense in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation is computed using straight-line method over the estimated useful life as follows:

Category	Number of Years
Office equipment	3
Furniture and fixtures	5

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The useful life, residual values and depreciation method are reviewed periodically and adjusted if appropriate, at each financial year, to ensure that the periods and method of depreciation are consistent with the expected pattern of economic benefits from items of *property and equipment***.**

An item of *property and equipment* is derecognized when assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and any allowance for impairment losses are removed from the accounts, any gain or loss arising on derecognition of the asset (calculated as the difference between net disposals proceeds and the carrying amount of the asset) is recognized in profit or loss.

The Company assesses at each balance sheet date whether there is an indication that *property and equipment* may be impaired. If any such indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses from continuing operations are recognized in profit or loss.

An assessment is made at each balance sheet 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 Company makes an estimate of recoverable amount. Any 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 depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of 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 pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Company expects some or all of provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain. The expense relating to any provision is recognized in profit or loss, net of any reimbursement.

Capital Stock

The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

Retained earnings (Deficit)

Retained earnings (deficit) includes accumulated gains and losses attributable to the Company's stockholders. Retained earnings (deficit) may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRSs. The Company's other comprehensive income (loss) in 2016 and 2015 pertains to net revaluation gains (losses) on AFS comprise unrealized valuation gains and losses due to the revaluation of AFS financial assets.

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

Investment income
Investment income from AFS financial assets is recognized when earned.

Interest income
Interest income is recognized as it accrues taking into account the effective yield of the asset.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise.

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

Deferred tax
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet 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 income tax assets are recognized for all unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the carryforward unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each financial reporting date and are recognized to the extent that it has become probable that future taxable profit 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 year when the asset is realized or the liability is settled, based on tax rate that have been enacted or substantively enacted at the financial reporting date.

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

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

3. Significant Accounting Judgment, Estimates and Assumptions

The Company's financial statements prepared in accordance with PFRSs require management to make judgment, estimates and assumptions that affect amounts reported in the financial statements and related notes. The judgment, estimates and assumptions used in the financial statements are based upon the management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Actual results could differ from such estimates.

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

The following presents a summary of these significant accounting judgments and estimates:

Judgment
Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Company's financial statements continue to be prepared on a going concern basis.

Estimates and Assumptions
Determining fair values of financial instruments
The Company carries certain financial assets at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Company utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect income or loss and equity.

The fair values of the Company's financial instruments are presented in Note 10 to the financial statements.

Estimating impairment of AFS financial assets
The Company treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is 'significant' or when is 'prolonged' requires judgment. The Company treats 'significant' generally as 30% or more of the cost of AFS and 'prolonged' if the decline in fair value has been continuing for more than twelve (12) months. In addition, the Company evaluates other factors, including normal and/or unusual volatility in share price for quoted equities and the future cash flows. Impairment loss on AFS financial assets amounted to ₱675,214 and nil in 2016 and 2015, respectively. The carrying amount of AFS

financial assets amounted to ₱120,626,521 and ₱28,505,673 as of December 31, 2016 and 2015, respectively (Note 4).

Estimating impairment of nonfinancial assets
The Company assesses impairment of prepaid expenses and property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates that can materially affect the Company's financial statements. The Company has no provision for impairment loss in 2016 and 2015. The aggregate carrying values of these nonfinancial assets amounted to ₱0.38 million and ₱0.22 million, in 2016 and 2015, respectively.

Estimating realizability of deferred tax asset
The Company reviews the carrying amount of deferred income tax asset at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

The Company's assessment on the recognition of deferred tax asset on deductible temporary difference is based on forecasted taxable income. This forecast is based on the Company's past results and future expectations on revenues and expenses. However, there is no assurance that the Company will generate sufficient taxable income to allow all or part of its deferred income tax asset to be utilized in the future.

The Company did not recognize deferred tax asset on carryforward benefit of unused NOLCO amounting to ₱9.80 million and ₱6.01 million as at December 31, 2016 and 2015, respectively, as the management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized in the future (Note 9).

4. Available-for-sale (AFS) Financial Assets

AFS financial assets held by Bank of the Philippine Islands consists of the following:

	2016	2015
Corporate bonds	**₱45,617,002**	₱875,088
Equity securities	**38,002,533**	4,039,392
Republic of the Philippines bonds and treasury notes	**30,319,797**	9,441,601
Unit investment trust fund	**6,039,288**	9,171,429
Special savings account	**647,901**	4,978,163
	₱120,626,521	₱28,505,673

The Company pays its fund managers an annual service fee of 0.25% based on the average market value of the fund.

Corporate bonds include those issued by holding companies, property, utilities and telecommunication companies. These bonds earn annual interest rates ranging from 3.87% to 5.44% and 3.87% to 5.50% in 2016 and 2015, respectively.

Equity securities mainly consist of investment in companies listed in the Philippine Stock Exchange (PSE).

ROPs and treasury notes (Fixed rate treasury notes) earn annual interest rates ranging from 2.80% to 6.30% and 3.10% to 7.30% in 2016 and 2015, respectively.

Special savings accounts have annual interest rates ranging from 1% to 2% in 2016 and 2015, respectively.

The reconciliation of the carrying amounts as of December 31, 2016 and 2015 are as follows:

	2016	2015
Balances at beginning of year	**28,505,673**	₱29,333,200
Realized investments gains - net	**7,176,950**	2,741,446
Contributions/deposits	**93,750,000**	–
Disposals/withdrawals	**(5,150,000)**	(1,300,000)
Unrealized valuation losses - net	**(3,656,102)**	(2,268,973)
	₱120,626,521	₱28,505,673

Net realized investment gain, gross of tax, is detailed as follows:

	2016	2015
Trading gain	**₱3,990,590**	₱1,953,509
Interest	**3,732,590**	734,032
Dividends	**1,317,994**	301,880
Expenses	**(442,492)**	(101,169)
	₱8,598,682	₱2,888,252

As of December 31, 2016 and 2015, the allowance for impairment loss recognized for AFS financial assets amounted to ₱0.68 million and nil, respectively.

The rollforward analysis of the revaluation gains (losses) on AFS financial assets follow:

	2016	2015
Balance at beginning of year	**₱(533,523)**	₱1,735,450
Fair value gains losses charged against equity	**(3,656,102)**	(2,268,973)
Balance at end of year	**(₱4,189,625)**	(₱533,523)

5. **Property and Equipment**

The rollforward analysis of this account follows:

2016

	Office Equipment	**Furniture and Fixture**	**Total**
Cost			
Balances at beginning of year	**₱83,464**	**₱38,000**	**₱121,464**
Additions	**126,046**	**9,715**	**135,761**
Balances at end of year	**209,510**	**47,715**	**257,225**
Accumulated depreciation			
Balances at beginning of year	**32,778**	**9,131**	**41,909**
Depreciation	**52,249**	**7,878**	**60,127**
Balances at end of year	**85,027**	**17,009**	**102,036**
Net book values	**₱124,483**	**₱30,706**	**₱155,189**

2015

	Office Equipment	Furniture and Fixture	Total
Cost			
Balances at beginning of year	₱32,146	₱38,000	₱70,146
Additions	51,318	–	51,318
Balances at end of year	83,464	38,000	121,464
Accumulated depreciation			
Balances at beginning of year	9,992	1,900	11,892
Depreciation	22,786	7,231	30,017
Balances at end of year	32,778	9,131	41,909
Net book values	₱50,686	₱28,869	₱79,555

There are no fully depreciated assets in use as of December 31, 2016 and 2015.

There are no property and equipment items that are pledged as security to liabilities as of December 31, 2016 and 2015.

6. **Equity**

Details of capital stock follow:

	2016	2015
Par value	**₱100**	₱100
Authorized shares	**5,000,000**	5,000,000
Issued and outstanding shares	**1,250,000**	312,500

Subscription receivables in December 31, 2016 and 2015 amounted to nil and ₱93.75 million, respectively.

In 2016, the Company received a capital investment from the Parent Company amounting to ₱93.75 million which was received in the form of AFS financial assets.

7. Accounts Payable and Accrued Expenses

This account consists of:

	2016	2015
Accrued expenses	**₱374,201**	₱103,057
Accounts payable	**64,680**	–
Others	**143,120**	17,465
	₱582,001	₱120,522

Accrued expenses is composed of accrued utilities and other expenses.

8. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The Company's related party transactions representing expenses paid by the Parent Company for and on behalf of the Company are as follows:

	2016		2015			
	Transactions During the year	**Outstanding Balance**	Transactions During the year	Outstanding Balance	Terms	Condition
Parent:						
PEF	**₱70,753**	**₱70,753**	₱120,653	₱120,653	Due and demandable; noninterest-bearing; to be settled in cash	Unsecured

The Company has no key management personnel. The financial and administrative functions of the Company are being handled by the employees of the Parent Company.

Terms and conditions of transactions with related parties
Outstanding balances at year-end are unsecured, interest-free if paid when due, otherwise, interest bearing, and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. The Company has not recognized any impairment losses on amounts due from related parties for the years ended December 31, 2016 and 2015.

9. Income Taxes

The Company has no provision for current income tax in 2016 and 2015 due to its net taxable loss positions. Provision for income tax represents final tax on AFS investment income. The Company will be subjected to the minimum corporate income tax starting 2016.

The Company has unused NOLCO amounting to ₱9,799,814 and ₱6,010,500 as of December 31, 2016 and 2015, respectively, on which no deferred income tax asset was recognized as management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized in the future.

As of December 31, 2016, the Company's unused NOLCO that can be claimed as deduction from future taxable income is as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2016	₱5,913,019	₱–	₱–	₱5,913,019	2019
2015	2,288,437	–	–	2,288,437	2018
2014	1,598,358	–	–	1,598,358	2017
2013	2,123,705	–	(2,123,705)	–	2016
	₱11,923,519	₱–	(₱2,123,705)	₱9,799,814	

The reconciliation of income tax expense at the statutory income tax rate to provision for income tax is summarized as follows:

	2016	2015
Income tax at statutory tax rate	**₱806,240**	₱180,661
Additions to (reductions from) income tax resulting from:		
Changes in unrecognized deferred tax asset	**1,773,905**	686,531
Investment income subjected to final tax	**(1,833,087)**	(719,669)
Interest income subjected to final tax	**(180)**	(239)
	₱746,878	₱147,284

10. **Financial Instruments**

Financial Risk Management Objectives and Policies

The Company's financial instruments consist of cash, receivables, AFS financial assets, due to Parent Company, accounts payables and accrued expenses.

The BOD has overall responsibility for the establishment and oversight of the Company's financial risk management framework. The Company's financial risk management policies are established to identify and manage the Company's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Financial risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company has exposure to liquidity risk, interest rate risk, equity price risk, investment evaluation risk and credit risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objectives to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking adverse effect to the Company's credit standing.

Based on the Company's assessment, the carrying values of cash and receivables as of December 31, 2016 and 2015 are readily available for liquidity purposes. The Company's due to Parent Company and other payables as of December 31, 2016 and 2015 are either due and demandable or payable within a year.

Foreign currency risk
Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Company has no significant exposure to foreign currency risk.

Interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company derives majority of its revenue from AFS financial assets. Accordingly, the Company is subject to financial risk arising from changes in interest rates. The Company manages interest rate risk by investing mainly on fixed coupon interest bonds and other investments. By doing so, the Company is assured of future interest revenues from such investments.

Since the Company invests on fixed coupon interest bonds and other investments, the Company is not exposed to cash flow interest rate risk.

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Company's financial assets in AFS equity instruments. For investments in Philippine equities, all funds are invested in equities listed in the Philippine Stock Exchange (PSE).

Quoted AFS financial assets are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Company's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2016 and 2015, with all other variables held constant, of the Company's equity.

	2016		2015	
Market Index	**Change in variable**	**Effect on equity**	Change in variable	Effect on equity
PSE	**+1.83%**	**₱688,128**	+9.91%	₱786,323
	–1.83%	**(688,128)**	–9.91%	(786,323)

The percentage of increase and decrease in market price is based on the movement in the Philippine Stock Exchange Index (PSEI) from beginning to end of the year. The sensitivity analyses shown above are based on the assumption that the movement in PSE composite index will be most likely be limited to an upward or downward fluctuation of 1.83% and 9.91% in 2016 and 2015, respectively.

The impact of sensitivity of equity prices on the Company's equity already excludes the impact on transactions affecting the statements of income.

Investment evaluation risk
Investment evaluation risk is defined as the lack of relevant and or reliable information supporting investment decisions and linking the risks undertaken to the capital at risk may result in poor investment decisions.

The Company put in place the policy on trust investments to ensure that the Company is not exposed to unnecessary risk. The policy includes portfolio mix, currency mix, monitoring and reporting, criteria in selecting fund managers and social responsible investing policy.

Credit risk
Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation.

The Company is exposed to credit risk primarily because of its investing activities. The Company is exposed to credit risk arising from the counterparties to its financial assets.

Credit risk management
In managing credit risk on these investments, capital preservation is paramount. The Company transacts only with recognized and creditworthy third parties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in equity securities represent investments in companies with good dividend track record as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed regularly by the Company's Finance and Investments Committee.

Credit risk exposures
At balance sheet date, the Company's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the statements of financial position, which are neither past due nor impaired.

Credit risk concentration profile
The Company has no significant concentrations of credit risk.

Credit quality
The table below presents information about the credit quality per class of financial assets:

2016

	High Grade	Standard Grade	Total
Cash	**₱804,036**	**₱–**	**₱804,036**
Receivables	**–**	**3,287**	**3,287**
AFS financial assets	**120,626,521**	**–**	**120,626,521**
Total	**₱121,430,557**	**₱3,287**	**₱121,433,844**

2015

	High Grade	Standard Grade	Total
Cash	₱615,053	₱–	₱615,053
Receivables	–	20,455	20,455
AFS financial assets	28,505,673	–	28,505,673
Total	₱29,120,726	₱20,455	₱29,141,181

Cash is considered high grade since the counterparties are reputable banks with high quality external credit ratings. High grade also include AFS financial assets related to special deposit accounts, debt and equity instruments, unit investment trust funds and mutual funds entered into by the Company with various fund managers, most of which are top banks in their respective locations. Standard grade pertains to receivables which would require some reminder follow-ups to obtain settlement from the counterparty.

The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility. As part of its liquidity risk management, the Company regularly evaluates its projected and actual cash flows. The parent company provides the Company's funding requirements as needed.

Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash, receivables, Due to Parent Company, Accounts payable and accrued expenses

The carrying amounts of cash, receivables, due to parent company, accrued expenses and other payables approximate their fair values due to the short-term maturities of these financial instruments.

AFS financial assets

The carrying value of quoted AFS financial assets is equal to its fair value because the instruments were revalued based on the quoted market prices at the close of business at balance sheet date.

Fair Value Hierarchy

The following table shows the fair value hierarchy of the Company's AFS financial assets as at December 31, 2016 and 2015:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
2016	**₱38,002,533**	**₱82,623,988**	**₱–**	**₱120,626,521**
2015	4,039,392	24,466,281	–	28,505,673

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement in December 31, 2016 and 2015, respectively.

11. Capital Management

The Company considers total equity presented on the face of the statements of financial position as its core capital. The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may obtain additional advances from Parent Company, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2016 and 2015, respectively.

12. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by Revenue Regulation No. 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued for the year ended December 31, 2016:

a. Input VAT

Balance at January 1, 2016	₱100,322
Current year's domestic purchases/payments for:	
Services lodged under other accounts	28,837
Goods other than for resale or manufacture	5,426
Capital goods not subject to amortization	9,415
Balance at December 31, 2016	₱144,000

b. Other taxes and licenses under operating expenses are as follows:

Business permit and fees	₱5,014
Documentary stamp tax	695
Others	245
	₱6,209

The amount of withholding taxes paid for the year amounted to:

Withholding taxes on compensation and benefits	₱528,122
Expanded withholding taxes	13,670
	₱541,792