

Peace and Equity Holdings, Inc.
*(A Wholly Owned Subsidiary of
Peace Equity Access for Community
Empowerment (PEACE) Foundation, Inc.)*

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
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. (a wholly owned subsidiary of Peace Equity Access for Community Empowerment (PEACE) Foundation, Inc.) (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, 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, 2017 and 2016, 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.



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 No. 15-2010 in Note 17 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. 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
Partner

CPA Certificate No. 109952

SEC Accreditation No. 1540-A (Group A),
March 8, 2016, valid until March 8, 2019

Tax Identification No. 242-019-387

BIR Accreditation No. 08-001998-117-2016,
February 15, 2016, valid until February 14, 2019

PTR No. 6621276, January 9, 2018, Makati City

March 1, 2018



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	
	2017	2016
ASSETS		
Current Assets		
Cash (Note 6)	₱1,407,153	₱804,036
Receivables	10,858	3,287
Available-for-sale (AFS) financial assets (Note 7)	124,679,879	120,626,521
Other current assets (Note 8)	291,783	222,921
Total Current Assets	126,389,673	121,656,765
Noncurrent Asset		
Property and equipment (Note 9)	132,700	155,189
	₱126,522,373	₱121,811,954
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	₱313,997	₱582,001
Due to Parent Company (Note 12)	32,601	70,753
Total Current Liabilities	346,598	652,754
Equity		
Capital stock (Note 11)	125,000,000	125,000,000
Retained earnings (Deficit)	(254,432)	348,825
Net revaluation gains (losses) on AFS financial assets (Note 7)	1,430,207	(4,189,625)
Total Equity	126,175,775	121,159,200
	₱126,522,373	₱121,811,954

See accompanying Notes to Financial Statements.



PEACE AND EQUITY HOLDINGS, INC.
**(A Wholly Owned Subsidiary of Peace Equity Access for Community
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STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
REVENUE		
Investment income (Note 7)	₱10,556,839	₱8,598,682
Interest income (Note 6)	5,246	1,804
	10,562,085	8,600,486
EXPENSES		
Personnel	5,574,110	3,034,905
Project appraisal and monitoring	3,343,949	1,400,050
Meeting costs	214,218	177,328
Legal services	150,186	156,981
Utilities	103,680	–
Training and seminars	98,778	49,936
Taxes and licenses	84,691	6,209
Depreciation (Note 9)	81,380	60,127
Professional fee	57,750	64,680
Insurance	23,444	43,691
Provision for impairments losses - AFS financial assets (Note 7)	–	675,214
Others	358,794	243,898
	10,090,980	5,913,019
INCOME BEFORE INCOME TAX	471,105	2,687,467
PROVISION FOR FINAL TAX (Note 13)	1,074,362	746,878
NET INCOME (LOSS)	(603,257)	1,940,589
OTHER COMPREHENSIVE INCOME (LOSS)		
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Unrealized valuation gain (loss) on AFS financial assets (Note 7)	5,619,832	(3,656,102)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱5,016,575	(₱1,715,513)

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

	Capital Stock (Note 11)	Net revaluation gains (losses) on AFS financial assets (Note 7)	Retained Earnings (Deficit)	Total
For the Year Ended December 31, 2017				
Balances at beginning of year	₱125,000,000	(₱4,189,625)	₱348,825	₱121,159,200
Issuance of capital stock	–	–	–	–
Total comprehensive income (loss)	–	5,619,832	(603,257)	5,016,575
Balances at end of year	₱125,000,000	₱1,430,207	(₱254,432)	₱126,175,775
For the Year Ended December 31, 2016				
Balances at beginning of year	₱31,250,000	(₱533,523)	(₱1,591,764)	₱29,124,713
Issuance of capital stock	93,750,000	–	–	93,750,000
Total comprehensive income (loss)	–	(3,656,102)	1,940,589	(1,715,513)
Balances at end of year	₱125,000,000	(₱4,189,625)	₱348,825	₱121,159,200

See accompanying Notes to Financial Statements.



PEACE AND EQUITY HOLDINGS, INC.
**(A Wholly Owned Subsidiary of Peace Equity Access for Community
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STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before final tax	₱471,105	₱2,687,467
Adjustments for:		
Depreciation (Note 9)	81,380	60,127
Provision for impairment losses - AFS financial assets	–	675,214
Interest income	(5,246)	(1,804)
Investment income (Note 7)	(10,556,839)	(8,598,682)
Operating loss before working capital changes	(10,009,600)	(5,177,678)
Increase (decrease) in:		
Receivables	(7,571)	17,168
Other current assets	(68,862)	(77,769)
Increase (decrease) in:		
Accounts payable and accrued expenses	(268,004)	461,479
Due to Parent Company	(38,152)	(49,900)
Net cash used in operations	(10,392,189)	(4,826,700)
Interest received	5,246	1,804
Final taxes paid	(1,074,362)	(746,878)
Net cash flows used in operating activities	(11,461,305)	(5,571,774)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in AFS financial assets	12,123,313	(87,853,482)
Additions to property and equipment (Note 9)	(58,891)	(135,761)
Net cash provided by (used in) investing activities	12,064,422	(87,989,243)
CASH FLOWS FROM A FINANCING ACTIVITY		
Proceeds from issuance of capital stock (Note 11)	–	93,750,000
NET INCREASE IN CASH	603,117	188,983
CASH AT BEGINNING OF YEAR	804,036	615,053
CASH AT END OF YEAR	₱1,407,153	₱804,036

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.)

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.

Approval for Issuance of the Financial Statements

The financial statements of the Company as at and for the years ended December 31, 2017 and 2016 were approved and authorized for issuance by the Board of Directors (BOD) of the Company on March 1, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The financial statements of the Company have been prepared using 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 also the Company's functional currency. All values are rounded off to the nearest peso unless otherwise indicated.

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 PFRSs for Small and Medium-sized Entities (SMEs)

The preface to PFRSs 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 PFRSs because it is a subsidiary of a Parent Company reporting under full PFRSs.

3. **Changes in Accounting Policies and Disclosures**

The Company applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. The adoption of these pronouncements did not have significant impact on the Company's financial position or performance, unless otherwise indicated.

- 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 PAS 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

New Accounting Standards, Interpretations and Amendments Effective Subsequent to December 31, 2017

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, 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.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Company is currently assessing the potential effect of the amendments on its financial statements.

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.

The Company is currently assessing the potential effect adopting PFRS 9.



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.

The amendments are not applicable to the Company since the company does not have activities that are predominantly connected with insurance or issue insurance contracts.

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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Company is currently assessing the potential effect adopting PFRS 15.

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.

The amendments should be applied retrospectively, with earlier application permitted.

The Company is currently assessing the potential effect of the amendments on its financial statements.

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.

The Company is currently assessing the potential effect of the amendments on its financial statements.

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 non-monetary 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.

The Company is currently assessing the potential effect of the amendments on its financial statements.

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.

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.



4. Summary of Significant Accounting and Financial Reporting Policies

Current versus Noncurrent Classification

The Company presents assets and liabilities in the statement of financial position based on current or noncurrent classification.

An asset is current when it is:

- a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
- b. Held primarily for the purpose of trading;
- c. Expected to be realized within 12 months after the reporting period; or
- d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- a. It is expected to be settled in normal operating cycle;
- b. It is held primarily for the purpose of trading;
- c. It is due to be settled within 12 months after the reporting period; or
- d. There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

Cash

Cash represents cash on hand and in banks. Cash in banks earn interest at floating rates based on daily bank deposit rates. Cash in banks are classified and accounted for as loans and receivables.

Financial Instruments - Initial Recognition and Subsequent Measurement

Classification of financial instruments

Financial instruments within the scope of PAS 39 are classified as:

- a. Financial assets and financial liabilities at fair value through profit or loss (FVPL);
- b. Loans and receivables;
- c. Held-to-maturity (HTM) investments;
- d. Available-for-sale (AFS) financial assets; and
- e. Other financial liabilities.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates at every reporting period.

The financial instruments of the Company as of December 31, 2017 and 2016 consist of receivables, AFS financial assets and other financial liabilities.

Date of recognition of financial instruments

Financial instruments are recognized in the statement of financial position when the Company 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 using the settlement date accounting.



In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

Loans and receivables are recognized initially at fair value, plus transaction costs that are attributable to the acquisition of loans and receivables.

After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less allowance for doubtful accounts. Amortized cost is calculated by taking into account any discount or premium on acquisition, and fees or costs that are an integral part of the EIR. Gains and losses are recognized in statement of income, when loans and receivables are derecognized or impaired, as well as through the amortization process.

This accounting policy relates to the cash (excluding cash on hand) and receivables.

AFS Financial Assets

AFS financial assets include quoted and unquoted equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded from reported earnings and are reported as "Reserve for fluctuation on AFS financial assets" in the equity section of the statement of financial position and as part of other comprehensive income in the statement of comprehensive income. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

AFS financial assets whose fair value cannot be reliably established are carried at cost less an allowance for any possible impairment. This normally applies to equity investments that are unquoted and whose cash flows cannot be forecasted reasonably.

When the investment is disposed of, the cumulative gains or losses previously recognized in equity is recognized as income in the statements of comprehensive income. Dividends earned on holding AFS financial assets are recognized when the right of payment has been established. The losses arising from impairment of such investments are recognized as provision for impairment losses on AFS financial assets in the statement of comprehensive income.

The Company's investments under fund managers and unquoted equity shares are designated as AFS financial assets.

Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations.

Other financial liabilities are initially recognized at the fair value of the consideration received, less directly attributable transaction costs.



After initial measurement, other financial liabilities are 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.

This accounting policy relates to the Company's "Accounts payable and accrued expenses".

Determination of Fair Value

The 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 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.

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

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

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

'Day 1' Difference

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

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset 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.

Derecognition of Financial Instruments

Financial asset

A financial asset (or, when 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 Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangements and either:
 - a. The Company has transferred substantially all the risks and rewards of the asset; or
 - b. The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a 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 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, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in statement of income.

Impairment of Financial Assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred ‘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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company 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 them 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 or impairment.

The amount of any impairment loss identified is measured as the difference between asset's carrying amount and the present value of estimated future cash flows that is discounted at the asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of income. Receivables, together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment is recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited in the statement of income.

Other Current Assets

Input Value-Added Taxes (VAT)

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services required under Philippine taxation laws and regulations.

The input VAT is recognized as an asset and will be used to offset the Company's current output VAT liabilities and any excess will be claimed as tax credits. Input taxes are stated at their estimated net realizable value.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized.

Prepayments that are expected to be realized for not more than twelve months after the reporting date are classified as current assets; otherwise these are classified as other noncurrent assets.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation and amortization and accumulated impairment loss, if any. The initial cost of property and equipment comprises its purchase price, any related capitalizable borrowing costs attributed to progress payments incurred on account of aircraft acquisition under construction and other directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are capitalized as part of 'Property and equipment' account only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged against to the statement of income as incurred.

Depreciation and amortization of property and equipment commence once the property and equipment are available for use and are computed using the straight-line method over the estimated useful lives (EULs) of the assets, regardless of utilization. The categories of property and equipment and related EUL are as follows:

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

<u>Category</u>	<u>Number of Years</u>
Office equipment	3
Furniture and fixtures	5



An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of income, when the asset is derecognized.

The methods of depreciation and amortization, EULs and residual values of property and equipment are reviewed annually and adjusted prospectively, if appropriate.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged to the statement of income.

Impairment of Nonfinancial Assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of the asset's or CGU's fair value less costs of disposal (FVLCD) and its value-in-use (VIU). The recoverable amount 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. When 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 determining FVLCD, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. In assuming VIU, 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.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

An assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exist, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine that asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount that does not exceed its recoverable amount, nor 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 statement of income.

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 2017 and 2016 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.

Expense Recognition

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.



Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) 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. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. 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 assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense in statement of comprehensive income.

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 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.

5. Significant Accounting Judgment and Estimates

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 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 and estimates 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

In the process of applying the Company's accounting policies, the management has no significant judgement for the years ended December 31, 2017 and 2016

Estimates

Impairment of AFS financial assets

The Company determines that AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is 'significant' or 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more and 'prolonged' as greater than 6 months for quoted equity securities.



In addition, the Company evaluates among other factors, the normal volatility in share price and the future cash flows and discount factors for unquoted equities.

As of December 31, 2017 and 2016, the carrying value of the AFS financial assets amounted to ₱124.68 million and ₱120.63 million, respectively (Note 7). The Company recognized in the statement of comprehensive income provision for impairment losses of AFS financial assets amounting to nil and ₱0.68 million as of December 31, 2017 and 2016, respectively (Note 7).

Estimating Realizability of Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Company has NOLCO amounting to ₱18.29 million and ₱9.80 million as of December 31, 2017 and 2016, respectively (Note 13). These losses expire in the next 3 taxable years after the reporting period. On this basis, the Company has determined that it cannot recognize deferred tax assets on the NOLCO.

6. Cash

This account consists of:

	2017	2016
Cash on hand	₱15,000	₱15,000
Cash in banks	1,392,153	789,036
	₱1,407,153	₱804,036

Cash in banks earn interest at the respective bank deposit rates. Cash in banks are unrestricted and immediately available for use.

Interest income earned on cash in banks amounted to ₱5,246 and ₱1,804.

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

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

	2017	2016
Unit investment trust fund	₱55,294,324	₱6,039,288
Republic of the Philippines (ROP) bonds and treasury notes	39,517,030	30,319,797
Special savings account	18,184,357	647,901
Equity securities	10,524,606	38,002,533
Corporate bonds	1,159,562	45,617,002
	₱124,679,879	₱120,626,521

Corporate bonds include those issued by holding companies, property, utilities and telecommunication companies. These bonds earn annual interest rates ranging from 3.41% to 5.55% and 3.87% to 5.44% in 2017 and 2016, respectively.



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

ROPs bonds and treasury notes (Fixed rate treasury notes) earn annual interest rates ranging from 1.78% to 5.82% and 2.80% to 6.30% in 2017 and 2016, respectively.

Special savings accounts have annual interest rates ranging from 1% to 2% in 2017 and 2016, respectively.

The reconciliation of the carrying amounts as of December 31, 2017 and 2016 are as follows:

	2017	2016
Balances at beginning of year	₱120,626,521	₱28,505,673
Realized investments gains - net	9,483,526	7,176,950
Contributions/deposits	2,000,000	93,750,000
Disposals/withdrawals	(13,050,000)	(5,150,000)
Unrealized valuation losses - net	5,619,832	(3,656,102)
	₱124,679,879	₱120,626,521

Net realized investment gain, of which the interest income is gross of final tax, is detailed as follows:

	2017	2016
Trading gains	₱4,314,657	₱3,990,590
Interest income	5,366,564	3,732,590
Dividends	1,395,098	1,317,994
Expenses	(519,480)	(442,492)
	₱10,556,839	₱8,598,682

Expenses pertain to payment to fund managers for an annual service fee of 0.25% based on the average market value of the fund.

As of December 31, 2017 and 2016, the provision for impairment losses on AFS financial assets recognized in the statements of comprehensive income amounted to nil and ₱0.68 million, respectively.

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

	2017	2016
Balance at beginning of year	(₱4,189,625)	(₱533,523)
Fair value gains losses charged against equity	5,619,832	(3,656,102)
Balance at end of year	₱1,430,207	(₱4,189,625)

8. Other Current Assets

This account consists of:

	2017	2016
Input VAT	₱211,031	₱144,000
Prepaid expenses	80,752	78,921
	₱291,783	₱222,921



Input VAT pertains to input tax from supplier of goods and services.

Prepaid expenses pertain to advance payment from Health maintenance organization (HMO) for health insurance.

9. Property and Equipment

The rollforward analysis of this account follows:

2017

	Office Equipment	Furniture and Fixtures	Total
Cost:			
Balances at beginning of year	₱209,510	₱47,715	₱257,225
Additions	58,891	—	58,891
Balances at end of year	268,401	47,715	316,116
Accumulated depreciation:			
Balances at beginning of year	85,027	17,009	102,036
Depreciation	72,207	9,173	81,380
Balances at end of year	157,234	26,182	183,416
Net book values	₱111,167	₱21,533	₱132,700

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

There are no fully depreciated assets that are still in use as of December 31, 2017 and 2016.

There are no property and equipment items that are pledged as security to liabilities as of December 31, 2017 and 2016.



10. Accounts Payable and Accrued Expenses

This account consists of:

	2017	2016
Accrued expenses	₱134,094	₱374,201
Accounts payable	64,680	64,680
Others	115,223	143,120
	₱313,997	₱582,001

Accrued expenses are composed of accrued utilities and other expenses.

Others pertain to withholding tax payable on compensation, expanded withholding tax, SSS premiums, HDMF and PHIC premiums payable.

11. Equity

Capital stock

The capital stock structure of the Company as at December 31, 2017 and 2016 is as follows

	2017	2016
Capital stock - ₱100 par value		
Authorized - 5,000,000 shares		
Issued and outstanding shares	₱125,000,000	₱125,000,000

Movements in capital stock are as follows:

	Number of shares		Amount	
	2017	2016	2017	2016
Authorized - ₱100 par value	5,000,000	5,000,000	₱500,000,000	₱500,000,000
Balance at beginning of year	1,250,000	312,500	₱125,000,000	₱31,250,000
Issuance during the year	-	937,500	-	93,750,000
Issued and outstanding	1,250,000	1,250,000	₱125,000,000	₱125,000,000

12. 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:

Category	Year	Amount/ volume	Outstanding balance	Terms	Conditions
Parent Company					
Peace and Equity Foundation (PEF)					
Expenses	2017	₱32,601	₱32,601	On demand, noninterest bearing	Unsecured
	2016	70,753	70,753		



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 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, 2017 and 2016. This assessment is undertaken each financial year through a review of financial position of the related party and the market in which the related party operates.

13. Income Taxes

The Company recognized provision for final tax amounting to ₱1.07 million and ₱0.75 million in 2017 and 2016, respectively. No provision for current income tax was recognized in 2017 and 2016 due to its net taxable loss position. The Company started to be subjected to minimum corporate tax (MCIT) in 2016.

As it is not probable that sufficient taxable income will be available to allow all of the deferred tax assets to be utilized, the Company did not recognize deferred tax asset on the NOLCO amounting to ₱18.29 million and ₱9.80 million 2017 and 2016, respectively.

As of December 31, 2017, the details of the NOLCO are as follows:

Inception Year	Amount	Applied	Expired	Balance	Expiry Year
2017	₱10,090,979	₱-	₱-	₱10,090,979	2020
2016	5,913,019	-	-	5,913,019	2019
2015	2,288,437	-	-	2,288,437	2018
2014	1,598,358	-	(1,598,358)	-	2017
	₱22,014,498	₱-	(₱3,772,063)	₱18,292,435	

Expired NOLCO amounted to ₱1.60 million and ₱2.12 million in 2017 and 2016, respectively.

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

	2017	2016
Income tax at statutory tax rate	₱141,332	₱806,240
Additions to (reductions from) income tax resulting from:		
Changes in unrecognized deferred tax asset	3,027,293	1,773,905
Investment income subjected to final tax	(2,093,739)	(1,833,087)
Interest income subjected to final tax	(524)	(180)
	₱1,074,362	₱746,878



14. Fair value and Categories of Financial instruments

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

- *Cash in banks, receivables, accounts payable and accrued expenses* - carrying amounts approximate fair values due to short-term nature of these accounts.
- *AFS financial assets* - fair values were determined using quoted market prices at reporting date. The investments are included within the level 1 of the hierarchy. The fair value of AFS financial assets in unquoted shares of stock are based on cost since there is no reliable basis for fair value.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

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

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

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

The table below shows the Company's financial instruments carried at fair value hierarchy classification:

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
2017	₱66,978,492	₱57,701,387	₱-	₱124,679,879
2016	₱89,658,823	₱30,967,698	₱-	₱120,626,521

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, 2017 and 2016, respectively.

15. Financial Risk Management Objectives and Policies

The Company's principal financial assets comprise of cash, receivables and AFS financial assets.

The normal course of the Company's business exposes it to a variety of financial risks such as credit risk, liquidity risk and equity price risk. The main objectives of the Company's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.



Equity Price Risk

Equity price risk is the risk of unfavorable changes in the fair values of equities as the result of changes in the levels of equity indices and the value of individual shares. The Company's equity price risk exposure at year-end relates principally to AFS financial assets.

The analysis below is performed for reasonably possible movements in the Philippine Stock Exchange (PSE) index as of September 30, 2017 and 2016 with all other variables held constant showing the impact on equity that reflects adjustments on changes in fair value of AFS financial assets.

Market Index	2017		2016	
	Change in variable	Effect on equity	Change in variable	Effect on equity
PSE	+2.84%	₱1,029,912	+1.83%	₱688,128
	-2.84%	(1,029,912)	-1.83%	(688,128)

Liquidity Risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows.

	2017				
	On demand	Within a year	More than a year	No term	Total
Loans and receivables:					
Cash in banks	₱1,407,153	₱-	₱-	₱-	₱1,407,153
Receivable	10,858	-	-	-	10,858
AFS financial assets	-	-	-	124,679,879	124,679,879
Total financial assets	₱1,418,011	₱-	₱-	₱124,679,879	₱126,097,890
Other financial liabilities:					
Accounts payable	₱-	₱179,903	₱-	₱-	₱179,903
Accrued expenses	-	134,094	-	-	134,094
Due to Parent Company	-	32,601	-	-	32,601
Total financial liabilities	₱-	₱346,598	₱-	₱-	₱346,598
	2016				
	On demand	Within a year	More than a year	No term	Total
Loans and receivables:					
Cash in banks	₱804,036	₱-	₱-	₱-	₱804,036
Receivable	3,287	-	-	-	3,287
AFS financial assets	-	-	-	120,626,521	120,626,521
Total financial assets	₱807,323	₱-	₱-	₱120,626,521	₱121,433,844
Other financial liabilities:					
Accounts payable	₱-	₱207,800	₱-	₱-	₱207,800
Accrued expenses	-	374,201	-	-	374,201
Due to Parent Company	-	70,753	-	-	70,753
Total financial liabilities	₱-	₱652,754	₱-	₱-	₱652,754



The table below analyzes financial assets and liabilities of the Company into their relevant maturity groups based on the remaining period at the reporting dates to their expected repayment dates.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company trades only with recognized, creditworthy third parties.

With respect to credit risk arising from cash in banks, loans receivables, miscellaneous deposits under 'Other Current Assets' account and AFS financial assets, the Company's exposure to credit risk relates to default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The credit quality was determined as follows:

- a) *Cash in banks and related accrued income*
These are classified as high grade. These are deposited, placed or invested in local banks belonging to the top banks in the Philippines in terms of resources and profitability.
- b) *AFS financial assets*
Listed equity securities are classified as high grade. Unlisted equity securities are classified as medium grade.

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, 2017 and 2016, respectively.

16. Contingencies

As of December 31, 2017 and 2016, there is no present, pending nor threatened litigation, claim, lawsuit or proceeding by or against the Company. The Company is not aware of any other case under preliminary investigation, litigation and/or prosecution in courts.



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

In compliance with the requirements set forth by Revenue Regulations No. 15-2010, hereunder are the information on taxes, and license fees paid and accrued during the taxable year:

a. Input VAT

Balance at January 1, 2017	₱144,000
Current year's domestic purchases/payments for:	
Services lodged under other accounts	59,964
Goods other than for resale or manufacture	
Capital goods not subject to amortization	7,067
<u>Balance at December 31, 2017</u>	<u>₱211,031</u>

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

Business permit and fees	₱79,737
Documentary stamp tax	3,170
Others	1,784
<u></u>	<u>₱84,691</u>

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

Withholding taxes on compensation and benefits	₱108,734
Expanded withholding taxes	64,275
<u></u>	<u>₱173,009</u>

Tax assessment

As at December 31, 2017, the Company has no pending final assessment notices. The Company is not aware of any tax case under preliminary investigation, litigation and/or prosecution in courts or bodies outside the Bureau of Internal Revenue.

