# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended
   Aug 31, 2017
2. SEC Identification Number
   PW538
3. BIR Tax Identification No.
   000-225-442
4. Exact name of issuer as specified in its charter
   FAR EASTERN UNIVERSITY, INC.
5. Province, country or other jurisdiction of incorporation or organization
   Philippines
6. Industry Classification Code(SEC Use Only)

7. Address of principal office
   Nicanor Reyes Street, Sampaloc, Manila
   Postal Code
   1015
8. Issuer's telephone number, including area code
   (632) 735-8686
9. Former name or former address, and former fiscal year, if changed since last report
   -
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| COMMON | 16,477,023 |

11. Are any or all of registrant's securities listed on a Stock Exchange?

☑ Yes ☐ No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the

Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

☑ Yes ☐ No

(b) has been subject to such filing requirements for the past ninety (90) days

☑ Yes ☐ No



# Far Eastern University, Incorporated
# FEU

### PSE Disclosure Form 17-2 - Quarterly Report
***References: SRC Rule 17 and***
***Sections 17.2 and 17.8 of the Revised Disclosure Rules***

| | |
|---|---|
| **For the period ended** | Aug 31, 2017 |
| **Currency (indicate units, if applicable)** | Peso |

**Balance Sheet**

| | Period Ended | Fiscal Year Ended (Audited) |
|---|---|---|
| | Aug 31, 2017 | May 31, 2017 |
| **Current Assets** | 6,220,270,848 | 5,029,603,633 |
| **Total Assets** | 13,151,331,004 | 11,956,148,055 |
| **Current Liabilities** | 2,635,911,975 | 1,441,185,604 |
| **Total Liabilities** | 4,339,189,646 | 3,133,522,708 |
| **Retained Earnings/(Deficit)** | 5,099,771,463 | 5,128,123,327 |
| **Stockholders' Equity** | 8,812,141,358 | 8,822,625,347 |
| **Stockholders' Equity - Parent** | 6,693,918,901 | 6,712,118,277 |
| **Book Value per Share** | 536 | 537 |

**Income Statement**

| | Current Year (3 Months) | Previous Year (3 Months) | Current Year-To-Date | Previous Year-To-Date |
|---|---|---|---|---|
| **Gross Revenue** | 435,958,398 | 421,263,697 | 435,958,398 | 421,263,697 |
| **Gross Expense** | 440,364,310 | 361,574,117 | 440,364,310 | 361,574,117 |
| **Non-Operating Income** | 60,576,102 | 37,858,844 | 60,576,102 | 37,858,844 |
| **Non-Operating Expense** | 15,707,681 | 4,213,015 | 15,707,681 | 4,213,015 |
| **Income/(Loss) Before Tax** | -4,405,912 | 59,689,580 | -4,405,912 | 59,689,580 |
| **Income Tax Expense** | 16,230,565 | 14,552,854 | 16,230,565 | 14,552,854 |
| **Net Income/(Loss) After Tax** | -20,636,477 | 45,136,726 | -20,636,477 | 45,136,726 |
| **Net Income Attributable to Parent Equity Holder** | -28,351,864 | 31,291,903 | -28,351,864 | 31,291,903 |
| **Earnings/(Loss) Per Share (Basic)** | -1.73 | 1.9 | -1.73 | 1.9 |
| **Earnings/(Loss) Per Share (Diluted)** | -1.73 | 1.9 | -1.73 | 1.9 |

| | Current Year (Trailing 12 months) | Previous Year (Trailing 12 months) |
|---|---|---|
| **Earnings/(Loss) Per Share (Basic)** | 41.99 | 69.56 |
| **Earnings/(Loss) Per Share (Diluted)** | 41.99 | 69.56 |

| **Other Relevant Information** |
|---|
| - |

**Filed on behalf by:**

| | |
|---|---|
| **Name** | MA. CRISTINA TALAMPAS |
| **Designation** | ADMINISTRATION MANAGER |

FAR EASTERN UNIVERSITY

Nicanor Reyes Street
Sampaloc, Manila
P.O. Box 609 Philippines 1015
www.feu.edu.ph

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-Q**
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SEC RULE 17 (2) (b) THEREUNDER

1. For the Quarter period ended — **August 31, 2017**

2. SEC Identification Number — **538**

3. PSE Code

4. BIR Tax Identification No. — **000-225-442**

5. Exact Name of Registrant as specified in its charter — **Far Eastern University, Inc.**

6. Province, Country or other jurisdiction of Incorporation or organization — **Philippines**

7. /______________/ (SEC use only)

8. Address of Principal Office — **Nicanor Reyes Street, Sampaloc, Manila**
   Postal Code — **1015**

9. Registrant's Telephone Number including Area Code — **(632) 735-5621**

10. **NOT APPLICABLE**
    Former name, former address, and former fiscal year, if changed since last report.

11. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common Stock, ₱100.00 par value** | **16,477,023** |
| Bond with Non-Detachable Warrant, ₱1.00 per unit | **Not Applicable** |

12. All of these common securities are listed with the Philippine Stock Exchange, Inc.

13. Has filed all reports required during the preceding 12 months (or for such shorter period required to file such reports):

    a) Sections 17 of the Code and SRC Rule 17

    Yes [ x ] No [ ]

    b) Sections 26 and 141 of the Corporation Code of the Philippines

    Yes [ x ] No [ ]

**Financial Information**

Item 1. Quarterly Financial Statements attached.

FAR EASTERN UNIVERSITY

SANTIAGO L. GARCIA, JR.
Corporate Secretary

GLENN Z. NAGAL
Comptroller

JUAN MIGUEL R. MONTINOLA
Chief Finance Officer

ARNUALDO B. MACAPAGAL
Chief Accountant

Manila
13 October 2017

## Management's Discussion and Analysis or Plan of Operation

As an academic institution, the Far Eastern University (FEU or the University) is fully aware of the importance of education in nation building and to its students who benefit from the quality instruction, research and community extension.

FEU is committed to continuously uplift academic standards through updating of its curricula, developing the faculty, improving the services to students and providing the best educational facilities.

### Consolidated Financial Position

The consolidated financial position of The Far Eastern University, Incorporated and subsidiaries (the Group) remain firm as of August 31, 2017.

Consolidated total assets of the Group increased by P1,195.18 million to P13,151.33 million as of the report date. Current and non-current assets grew by P1,190.67 million and P4.52 million, respectively.

The increase in current assets is mainly attributable to trade and other receivables, particularly in the receivable from students. Moreover, there were increases in prepaid income taxes and short-term investments which were reported as part of other current assets. Meanwhile, there was a significant addition to property and equipment which pertains mainly to the cost of construction-in-progress related to the ongoing construction of the FEU Alabang campus.

Consolidated total liabilities went up by P1,205.67 million to P4,339.19 million. Current liabilities increased by P1,194.73, while non-current liabilities went up by P10.94 million. The increase in total liabilities is primarily due to new loans obtained and deferred tuition revenues.

Consolidated total equity as of August 31, 2017 stood at P8,812.14 million. This was slightly lower by P10.48 million compared to the current period's beginning balance of P8,822.63 million mainly due to the net loss incurred during the period.

### Consolidated Results of Operation

The Group registered a net loss after tax amounting to P20.64 million for the three months ended August 31, 2017, mainly on account of the seasonality in recognizing tuition revenues, costs, and expenses.

Current period educational revenues show a decline of 2% which is still attributable to the K-12 program. The current Academic Year (AY) is the second year wherein there are very few freshmen enrollees. Moreover, the first quarter which covers the Summer Term and small portion of the First Semester/Term usually registers the lowest revenue among the four quarters of the fiscal year.

Costs and other operating expenses rose by 19% due mainly to the continuous enhancements of academic services provided by Roosevelt College, Inc. (RCI) and the growth in the student population of FEU Senior High School (FEU High School, Inc. or FEU High) as it now serves both Grades 11 and 12 students during the current AY. Moreover, due to the change in the fiscal year of FEU last year, portion of the costs and expenses incurred during the Summer Term for AY 2015-2016 falls within and recognized during the two-month transition period.

Comprehensive income went down due to mark-to-market changes in available-for-sale investments.

## A Look at What Lies Ahead

The consolidated financial position and the consolidated results of operations of the Group are expected to remain stable until year-end. Despite the continued effect of K-12, the FEU system remains optimistic with a 33,256 student population for the first semester. Previously initiated actions in preparation for K-12, coupled with a continuous effort to attain operational cost efficiency, are expected to keep expenses within budgeted amounts. The Group is confident that it will maintain steady operations during the year.

The Group remains committed to the core values of an affordable and accessible quality education for students and a meaningful career for its faculty and employees.

**Significant changes in real accounts as of August 31, 2017, compared to May 31, 2017**
***(Amounts in Philippine Peso)***

| | | **August 31** | May 31 | Increase (Decrease) | % |
|---|---|---|---|---|---|
| *1* | Cash and cash equivalents | **P 1,730,408,802** | P 1,526,201,248 | P 204,207,554 | 13% |
| *2* | Trade and other receivables – net | **1,134,429,804** | 448,400,278 | 686,029,526 | 153% |
| *3* | Available-for-sale financial assets | **2,344,954,829** | 2,278,646,580 | 66,308,249 | 3% |
| *4* | Other current assets – net | **838,756,381** | 680,352,309 | 158,404,072 | 23% |
| *5* | Held-to-maturity investments | **308,702,334** | 336,566,334 | ( 27,864,000) | 8% |
| *6* | Property and equipment – net | **5,752,683,505** | 5,675,099,744 | 77,583,761 | 1% |
| *7* | Other non-current assets | **119,502,069** | 88,942,544 | 30,559,525 | 34% |

**Significant changes in real accounts as of August 31, 2017, compared to May 31, 2017**
***(Amounts in Philippine Peso)***

| | | | **August 31** | | May 31 | | Increase (Decrease) | % |
|---|---|---|---|---|---|---|---|---|
| *8* | Trade and other payables | **P** | **765,553,441** | P | 958,063,062 | (P | 192,509,621) | 20% |
| *9* | Interest-bearing loans | | **2,208,095,238** | | 1,950,000,000 | | 258,095,238 | 13% |
| *10* | Deferred revenues | | **1,222,587,642** | | 75,199,534 | | 1,147,388,108 | 1526% |
| *11* | Provisions | | **21,197,023** | | 19,694,375 | | 1,502,648 | 8% |
| *12* | Income tax payable | | **15,113,172** | | 22,006,031 | ( | 6,892,859) | -31% |
| *13* | Post-employment benefit obligation | | **57,592,048** | | 59,800,703 | ( | 2,208,655) | -4% |
| *14* | Revaluation reserves | | **49,860,053** | | 39,707,565 | | 10,152,488 | 26% |
| *15* | Retained earnings | | **5,099,771,463** | | 5,128,123,327 | ( | 28,351,864) | -1% |
| *16* | Non-controlling interest | | **2,118,222,457** | | 2,110,507,070 | | 7,715,387 | 0.4% |

**Changes in income, cost and expense items during the same period (three months ended August 31) this year and in prior year *(Amounts in Philippine Peso)***

| | | | **2017** | | 2016 | | Increase (Decrease) | % |
|---|---|---|---|---|---|---|---|---|
| ***INCOME*** | | | | | | | | |
| *1* | Tuition fees - net | **P** | **341,830,394** | P | 359,848,071 | (P | 18,017,677) | -5% |
| *2* | Other school fees | | **25,082,061** | | 14,406,866 | | 10,675,195 | 74% |
| *3* | Finance income | | **40,856,439** | | 29,938,759 | | 10,917,680 | 37% |
| *4* | Other income – net | | **19,719,663** | | 7,920,085 | | 11,799,578 | 149% |
| ***COSTS AND EXPENSES*** | | | | | | | | |
| *1* | Salaries | **P** | **193,478,669** | P | 156,409,660 | P | 37,069,009 | 24% |
| *2* | Employee benefits | | **41,016,886** | | 28,119,458 | | 12,897,428 | 46% |
| *3* | Related Learning Experience (RLE), affiliation, linkages and research | | **1,310,416** | | 2,390,681 | ( | 1,080,265) | -45% |
| *4* | Books, subscriptions and academic materials | | **20,359,540** | | 4,070,994 | | 16,288,546 | 400% |
| *5* | Travel and business | | **5,793,003** | | 9,738,064 | ( | 3,945,061) | -41% |
| *6* | License and support | | **1,048,365** | | 8,746,682 | ( | 7,698,317) | -88% |
| *7* | Utilities | | **18,957,663** | | 20,990,026 | ( | 2,032,363) | -10% |
| *8* | Janitorial services | | **7,599,576** | | 6,416,815 | | 1,182,761 | 18% |
| *9* | Insurance | | **2,529,301** | | 334,182 | | 2,195,119 | 657% |
| *10* | Security services | | **9,314,999** | | 8,256,593 | | 1,058,406 | 13% |
| *11* | Depreciation | | **69,582,731** | | 65,055,200 | | 4,527,531 | 7% |
| *12* | Publicity and promotions | | **1,947,408** | | 733,828 | | 1,213,580 | 165% |
| *13* | Professional fee | | **13,394,527** | | 18,284,672 | ( | 4,890,145) | -27% |
| *14* | Taxes and licenses | | **4,778,808** | | 1,672,164 | | 3,106,644 | 186% |
| *15* | Provision for impairment loss | | **2,695,723** | | 1,213,524 | | 1,482,199 | 122% |
| *16* | Other maintenance and operations | | **3,722,218** | | 2,428,672 | | 1,293,546 | 53% |
| *17* | Other administrative and general | | **7,919,563** | | 4,209,671 | | 3,709,892 | 88% |
| *18* | Finance cost | | **15,707,681** | | 4,213,015 | | 11,494,666 | 273% |

**Causes of material changes in real accounts as of August 31, 2017, compared to May 31, 2017**

***TOTAL ASSETS***

Consolidated total assets of the Group grew by P1,195.18 million due to the following significant movements in the accounts:

**1. Cash and cash equivalents**

Cash and cash equivalents had a net increase of P204.21 million mainly resulting from cash inflows from operating activities of the Group, proceeds of loan availed and proceeds from matured HTM investment during the period.

**2. Trade and other receivables**

Trade and other receivables grew by P686.03 million mainly due to tuition fee receivables from students, specifically arising from the first semester enrollment.

**3. Available-for-sale (AFS) financial assets**

AFS financial assets posted an increase in value by P66.31 million due to additional investments made during the period and reinvestment of the income earned by the investments. Moreover, the fair market value of investments improved during the current period.

**4. Other current assets**

Other current assets went up by P158.40 million mainly pertaining to the short-term investments of FEU Alabang, Inc. (FEUAI or FEU Alabang). Moreover, there was an increase in balances of input VAT of Fern Realty Corporation (FRC) and FEU Alabang.

**5. Held-to-maturity (HTM) Investments**

HTM investments was lower by P27.89 million due to the maturity of one investment in bonds held by FEU.

**6. Property and equipment**

Property and equipment increased by P77.58 million mainly due to the construction costs recognized as construction-in-progress pertaining to the construction of the FEU Alabang campus and various asset additions of RCI.

**7. Other non-current assets**

Other non-current assets was larger by P30.56 million mainly due to FRC's additional advances to developers.

***TOTAL LIABILITIES***

Consolidated total liabilities of the Group increased by P1,205.67 million due to the following significant movements in the accounts:

**8. Trade and other payables**

Trade and other payables went down by P192.51 million which is mainly attributable to FEU, Far Eastern College-Silang, Inc. (FECSI or FEU Cavite) and FEU Alabang. For FEU, there are significant decreases in payable to suppliers, dividends payable, withholding taxes payable and various accrued expenses due to the settlement of the said liabilities. Moreover, there was significant decrease in payables of FECSI and FEU Alabang due to the settlement of accounts payable and payment of construction progress billings, respectively.

**9. Interest-bearing loans**

Interest-bearing loans went up by P258.10 million mainly due to new loans obtained by FEU from a local bank.

**10. Deferred revenue**

Deferred revenues grew by P1,147.39 million arising from tuition fees collected and charged/billed which were not yet earned for the first semester/trimester of the current AY. As of report date, only a portion of the total tuition fees collected and charged were recognized as income as FEU Manila (FEU) and FEU Tech (East Asia Computer Center, Inc. or EACCI) only started the first semester/term in August 2017. Moreover, FECSI has no unearned tuition revenues as of May 31, 2017, as it was already recognized in income in the previous fiscal year.

**11. Provisions**

Provisions pertain to various contingent liabilities of RCI that meet the criteria for recognition. The increase of P1.5 million pertains to additional accrual made for such liabilities.

**12. Income tax payable**

Income tax payable decreased by P6.89 million resulting from payments of previously accrued income taxes.

**13. Post-employment benefit obligation**

This pertains to the actuarially-determined post-employment benefit obligation recognized by RCI as of the report date. Decrease, amounting to P2.21 million, is due to lesser required accrual for future obligations to employees.

***EQUITY***

Consolidated total equity of the Group went down by P10.48 million. Significant movements in equity were as follows:

**14. Revaluation reserves**

Revaluation reserves improved by P10.15 million due to the increase in fair value of various investments which are accounted for as AFS financial assets.

**15. Retained Earnings**

The net decrease in Retained Earnings, amounting to P28.35 million, is due to the current period net loss attributable to the owners of the parent company.

**16. Non-controlling Interest (NCI)**

NCI increased by P7.72 million mainly due to the share of NCI in the income of FRC and RCI.

**Causes of material changes in income, cost and expense items during the same period (three months ended August 31) this year and in prior year**

The Group's consolidated net profit (profit after tax) went down by P65.77 million mainly due to the following:

***INCOME***

**1. Tuition fees-net**

Tuition fees-net declined by P18.02 million primarily due to lesser enrollment of college students as an effect of K-12. The current AY is the second year of K-12 implementation wherein there are fewer students in the first and second year levels. The enrollments of FEU High and RCI only partially offset the decrease in college enrollment in terms of fees.

**2. Other school fees**

Other school fees went up by P10.68 million, due to increases from FEU, specifically on fees for graduation and commencement, transcript of records and INTELAC, and increases in FEU High pertaining to the subject, developmental and miscellaneous fees arising from the addition of Grade 12 students.

**3. Finance income**

Finance income improved by P10.92 million due to a better market performance of the Group's various investments.

**4. Other income (charges) – net**

Other income grew by P11.80 million which is mainly due to sale of sales of books and merchandise generated by FEU, and EACCI's income recognition of certain deposits payable and various other incidental income from students.

***EXPENSES***

1. **Salaries** expense increased by P37.07 million which is attributable mainly to FEU and FEU High. Increase in the expense incurred by FEU is mainly on academic salaries resulting from timing of recognition since current period covers the entire expense incurred for the Summer term of AY 2016-2017, while for the same period last year, portion of the Summer term of AY 2015-2016 was covered by the two-month transition period resulting from the change in fiscal year. For FEU High, current operations now serve both Grades 11 and 12 students, while for the same period last year, there were only Grade 11 students.

2. **Employee Benefits** expense increased by P12.90 million. The increase coming from FEU is due to the timing of the Summer term last year and the additional contribution to the retirement plan made for the current year. The increase contributed by RCI was due to additional amounts incurred for 13$^{th}$ month pay and various contribution and retirement benefits.

3. **RLE, affiliation, linkages and research** expenses decreased by an aggregate of P1.08 million due to the timing of Summer term for AY 2015-2016; portion of which falls within the two-month transition period.

4. **Books, subscriptions and academic materials** expenses increased by P16.29 million, significant portion of which pertains to RCI's expenses incurred for students' and teachers' materials. Moreover, FEU High contribution to the increase as it did not incur the same expenses during the same period last year.

5. **Travel and business** expenses pertain to amounts incurred for transportation, accommodation and other related expenses for participation in conferences and seminars. The expense decreased by P3.95 million due to more streamlined programs focusing more on academically value-adding activities.

6. **License and support** expenses decreased by P7.70 million. During the same period last year, expenses were incurred for the enrollment system (Netsuite-EdERP) development. The same expenses were not incurred during the current period.

7. **Utilities** expense went down by P2.03 million. The said decrease was mainly contributed by FEU resulting from lower student population and its cost saving measures.

8. **Janitorial services** expense increased by P1.18 million due to normal increase in service fees and due to the increase coming from FEU High attributed to the increase in its student population.

9. **Insurance** expense increased by P2.20 million which pertains mainly to the basic engineering insurance of FEU Alabang related to the construction of its school campus.

10. **Security services** expense increased by P1.06 million which is primarily due to normal increase in service fees and due to the increase coming from FEU High due to increasing student population.

11. **Depreciation** expense went up by P4.53 million due to additional depreciation on asset additions of the consolidated entities.

12. **Publicity and promotions** expenses went up by P1.21 million which is mainly attributed to advertising expenses incurred by EACCI, FEU and RCI.

13. **Professional fees** expense went down by P4.89 million mainly from FEU. Expenses for the same period last year include professional fees related to the acquisition of RCI; such expenses were not incurred during the current period.

14. **Taxes and licenses** expense increased by P3.11 million mainly due to the documentary stamp tax paid by FEU Alabang related to the increase in its capitalization.

15. **Provision for impairment loss** pertains to provisions recognized for receivables from students. The increase of P1.48 million pertains to the additional amounts accrued by EACCI, FECSI and FEU High.

16. **Other maintenance and operations** expenses increased by P1.29 million mainly due to additional various outside services incurred by FEU.

17. **Other administrative and general** expenses went up by P3.71 million which is attributed mainly to FEU's program and events expenses, particularly for the UAAP Opening Ceremonies.

18. **Finance cost** increased by P11.49 million which pertains to the interest paid on loans. The increase is due to a larger loan amount during the current period.

## Top Five (5) Key Performance Indicators / Financial Soundness Indicators

### I. Test of Liquidity

Liquidity refers to the Group's ability to pay its short-term current liabilities as they fall due. This is measured by any of the following:

1. Current ratio measures the number of times that the current liabilities could be paid with the available current assets. (Adequate: at least 1.5:1)

| **August 31, 2017** | May 31, 2017 | August 31, 2016 |
|---|---|---|
| **2.36 : 1** | 3.49 : 1 | 2.43 : 1 |

2. Quick ratio measures the number of times that the current liabilities could be paid with the available quick assets. (Adequate: at least 1:1)

| **August 31, 2016** | May 31, 2017 | August 31, 2016 |
|---|---|---|
| **2.04 : 1** | 3.02 : 1 | 2.30 : 1 |

### II. Test of Solvency

Solvency refers to the Group's ability to pay all its debts whether such liabilities are current or non-current. It is somewhat similar to liquidity, except that solvency involves a longer time horizon. This is measured by any of the indicators as presented below and in the following page.

1. Debt-to-equity ratio measures the amount of assets provided by the creditors relative to that provided by the owners. (Adequate: 100% or less)

| **August 31, 2017** | May 31, 2017 | August 31, 2016 |
|---|---|---|
| **49%** | 36% | 45% |

2. Debt-to-asset ratio measures the amount of assets provided by the creditors relative to the total amount of assets of the Group. (Adequate: 50% or less)

| **August 31, 2017** | May 31, 2017 | August 31, 2016 |
|---|---|---|
| **33%** | 26% | 31% |

3. Equity-to-asset ratio measures the amount of assets provided by the owners relative to the total assets of the Group. (Adequate: 50% or more)

| **August 31, 2017** | May 31, 2017 | August 31, 2016 |
|---|---|---|
| **67%** | 74% | 69% |

## III. Test of Profitability

Profitability refers to the Group's earning capacity. It also refers to the Group's ability to earn a reasonable amount of income in relation to its total investment. It is measured by any of the following:

1. Return on total assets measures how well management has used its assets under its control to generate income (Adequate: at least equal to the prevailing industry rate).

| **August 31, 2017** ***( Three Months )*** | May 31, 2017 *( One Year )* | August 31, 2016 *( Three Months )* |
|---|---|---|
| **0%*** | 7% | 0.4% |

2. Return on equity measures how much was earned on the owners' or stockholders' investment. (Adequate: at least equal to the prevailing industry rate).

| **August 31, 2017** ***( Three Months )*** | May 31, 2017 *( One Year )* | August 31, 2016 *( Three Months )* |
|---|---|---|
| **0%*** | 9% | 1% |

3. Earnings per share measure the net income per share.

| **August 31, 2017** ***( Three Months )*** | May 31, 2017 *( One Year )* | August 31, 2016 *( Three Months )* |
|---|---|---|
| **(P 1.73)*** | P 45.61 | P 1.90 |

**Decrease in net income due to the second year of implementation of K-12. There were lesser college freshmen and sophomore students (see Note on **Tuition fees – net in page 8** and **Note 12 in page 24**)*

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## IV. Product Standard

- **FEU**

FEU was awarded **Autonomous Status** from April 1, 2016 to May 31, 2019.

FEU gained the ASEAN University Network Membership last August 10, 2017.

The Philippine Association of Colleges and Universities Commission on Accreditation (PACUCOA) has granted Certificates of Level IV Status from December 2015 to December 2020 to the following programs:

- ***Bachelor of Arts in Mass Communications***
- ***Bachelor of Science in Business Administration major in:***
    - *Business Economics*
    - *Financial Management*
    - *Marketing Management*
    - *Human Resource Development Management*
    - *Operations Management*
    - *Business Management*
    - *Internal Auditing*
    - *Legal Management*
- ***Bachelor of Science in Accountancy***
- ***Bachelor of Science in Applied Math major in IT***
- ***Bachelor of Science in Biology***
- ***Bachelor of Science in Psychology***
- ***Bachelor of Elementary Education***
- ***Bachelor of Secondary Education***

PACUCOA has granted Level II Reaccredited status to the following programs from February 2017 to February 2022:

- ***Master of Arts in Psychology***
- ***Master of Arts in Education***
- ***Doctor of Education***
- 

PACUCOA has granted Level I status to the following programs from September 2015 to September 2018:

- ***Bachelor of Arts in English Language***
- ***Bachelor of Arts in Literature***
- ***Bachelor of Arts in Political Science***
- ***Bachelor of Science in Hotel and Restaurant Management***

PACUCOA has granted Candidate status from February 2017 to February 2022 to ***Bachelor of Science in Architecture*** program.

PACUCOA has granted certificates of Level I status from November 2016 to November 2019 for the following programs:

- ***Bachelor of Arts in International Studies***
- ***Bachelor of Science in Medical Technology***
- ***Bachelor of Science in Tourism Management***
- ***Bachelor of Fine Arts***

Moreover, PACUCOA has granted Candidate status from March 2017 to March 2019 to the following programs of FEU-Makati:

- ***Bachelor of Science in Accountancy***
- ***Bachelor of Science in Accounting Technology***
- ***Bachelor of Science in Business Administration***

The Philippine Accrediting Association of Schools, Colleges and Universities (PAASCU) granted Level II Reaccredited Status to ***Bachelor of Nursing*** program until 2021.

***Bachelor of Science in Business Administration*** was awarded **Center of Development** by the Commission on Higher Education (CHED).

***Teacher Education Program*** was awarded **Center of Excellence** by the CHED.

The Institute of Tourism and Hotel Management programs: ***Bachelor of Science in Hotel and Restaurant Management*** and ***Bachelor of Science in Tourism Management*** were accredited as Associates by The International Centre of Excellence in Tourism and Hospitality Education (THE-ICE).

The Institute of Accounts, Business and Finance programs: ***Bachelor of Science in Accountancy, Bachelor of Science in Business Administration*** and ***Master in Business Administration*** were accredited as Members of *The Association to Advance Collegiate Schools of Business* from April 2016 to June 2017.

Teaching performance is constantly being monitored to maintain superior level of quality. Various incentives are given to faculty for teaching excellence.

Performance of FEU graduates in their respective Professional Licensure Examinations is generally better than national passing rates.

The following are the highlights of FEU performance in the recent board examinations:

- **9th Top Performing School in the August 2017 Medical Technologist Licensure Examination (97.43% Passing Rate)**

- **Individual placers in the August 2017 Medical Technologist Licensure Examination – 3rd, 7th and 9th Placers**

- **FEU Tech *(operated by EACCI)***

Founded in 1992, FEU Tech (formerly as FEU – East Asia College), is a private, non-sectarian institution that provides quality education in the fields of engineering and information technology.

FEU Tech occupies two buildings: the Technology Building of FEU Manila along Nicanor Reyes Street and the new 17-story FEU Tech Building on P. Paredes Street. Designed to effectively promote all modes of learning, the new building's facilities include spacious and air-conditioned classrooms with glass boards and digital projectors, well-equipped computer laboratories and engineering workshops, a library with a large collection of digital media, a covered gym and basketball court, a 25-meter 8-lane swimming pool, study areas for both individual and collaborative work, and exhibit areas and multi-function rooms. Its other notable features consist of scenic elevators, an e-Building high-tech security system, and an observation deck that provides a breathtaking view of Manila and its world-famous bay and sunset.

FEU Tech offers distinctive academic programs that afford opportunities for studying abroad and for undergoing intensive, real-world training with its industry partners, a network of some 800 technology or engineering firms. Its engineering classes have high passing rates in the professional licensure examinations, with its best students among the board topnotchers.

The PAASCU granted Level II Accredited Status to ***Information Technology (Web and Mobile Applications)*** and ***Computer Science*** programs until May 2020.

Level I Accredited Status was granted by PAASCU to ***Civil Engineering*** and ***Computer Engineering*** programs until April 2018.

Moreover, the programs ***Information Technology (Digital Arts, and Animation and Game Development)***, ***Electrical Engineering*** and ***Electronics Engineering*** were recognized at Preliminary Status by PAASCU.

Graduates of FEU Tech showed impressive performances in their respective Professional Licensure Examinations as the results garnered are generally higher than national passing rates.

- **FEU Cavite** ***(operated by FECSI)***

FEU expanded the legacy of its Founder beyond Manila.

Incorporated in 2009, FEU Cavite, located within the gated and secured environs of MetroGate Silang Estates in Silang, Cavite, consists of two modern and medium-rise buildings - one for Basic Education and another for Higher Education, built on two separate sites. The pristine campus rests amidst an invigorating atmosphere, with the eco-friendly structures housing spacious classrooms, equipped with state-of-the-art learning facilities that are deemed at par with existing international schools.

In June 2010, FEU Cavite opened its doors to students for pre-school, grade school, high school, and college levels. In June 2016, the school welcomed its first batch of senior high school students (Grade 11).

The **Basic Education Department (BED)** has been certified as an Education Service Contracting Scheme (ESC) school by FAPE (Fund for Assistance to Private Education) in April 2016 which enables deserving elementary students to avail of government financial assistance to pursue secondary education in private schools. Last school year, 30 Grade 7 students were ESC grantees. Equipping the learners with relevant competencies, BED implemented the Scholastic Reading program and MathScore to enhance students' critical thinking skills, develop positive reading experience, and practice mathematical skills through computer-adaptive technology. Students won in various competitions like ENFILSCIMAPEHTORY Quiz Bee (first placers in both English and Math categories) and received numerous awards including 12 in Math, nine in English, five in Science, and three in Filipino.

Moreover, the department conducted a nine-day Curriculum Mapping and Unit Planning Workshop in May 2016. To strengthen teachers' curriculum mapping knowledge and skills, BED representatives participated in the FEU-wide workshop held in June 2017.

In AY 2016-2017, the Senior High School (SHS) Department successfully implemented the first year of SHS and accommodated more than 150 students from Cavite, Laguna, and Batangas areas into the STEM, ABM, and HUMSS academic tracks.

The **Higher Education Department (HED)** offers degree programs in Accountancy, Accounting Technology, Business Administration, Elementary and Secondary Education, Hotel and Restaurant Management, Information Technology, Tourism Management, and Psychology. The Center for Continuing Education offers non-degree programs and short courses such as English as a Second Language (ESL) and TESDA course on Bread and Pastry Production (BPP). Recently, TESDA Central office audit team reported the compliance of the school's BPP program on its training regulations. FEU CAVITE – HED already has four batches of graduates, a total of 496 comprising the alumni roster. The graduates are well-placed in various industries.

On licensure examination performance, the maiden and second batches of Education majors are 100% LET passers; 85.71% passing rate (BLEP 2016) for the first batch of BS Psychology graduates, posing the highest performance rate in the Cavite area; and 80% CPA board performance in May 2017. Overall, FEU Cavite achieved its performance metric of 80% for professional licensure examinations.

FEU Cavite continues to improve its program offerings and courses. Information Technology curriculum was revised to offer specialization tracks in Web and Mobile, Business Analytics and Service Management; Accounting Technology curriculum included mandatory on-the-job training; and the new General Education Curriculum framework named L.E.A.R.N. (Nicanor Reyes Aspirational and Educational Legacy) was developed in compliance with CMO No. 20, series of 2013. HED commenced revising its curriculum to comply with the new CHED Policies, Standards, and Guidelines (PSGs) implementable in AY 2018-2019. Faculty members participated in local, national, and international activities such as seminar-workshops, conferences, and paper presentations. College students consistently brought home recognitions as finalist in the Business Idea Development Award (BIDA); champion in Theory of Accounts and Business Law in the Annual JPIA Regional Convention competition; champion in the Extemporaneous Speaking contest sponsored by the Educator's Congress; and champion in the Quiz Bee hosted by the Young Educators Congress in 2016. In sports development, FEU Cavite launched a Sports Club in January of 2017 and held the Summer Sports Camp in April 2017. School-wide, the stakeholders are active in different community service programs benefitting residents of Biluso and Biga communities in Silang, Cavite.

- **FEU Senior High School** ***(operated by FEU High School, Inc.)***

FEU Senior High School was established to offer pre-school, grade school and high school education programs, and various technical and vocational education and training programs.

Nestled inside the FEU Manila Campus, FEU Senior High School opened in AY 2016-2017 to its first batch of students offering the academic track with the following strands:

- ***Science, Technology, Engineering and Mathematics (STEM)***
- ***Accounting, Business and Management (ABM)***
- ***Humanities and Social Sciences (HUMSS)***
- ***General Academic Strand (GAS)***

Further, in May 2016, FEU High has been authorized by the Bureau of Immigration to accept foreign students in its Senior High School programs.

Guided by FEU core values of Fortitude, Excellence, and Uprightness, FEU Senior High School provides quality education that prepares its graduates for the world of work, for college, and for life. Its curriculum is student-centered, values-oriented, and competency-laden; its delivery methods technology-enabled, and its learning activities project-based. Student centered and driven learning is facilitated by the competent and nurturing faculty and staff using a blended learning approach.

Academic activities and celebrations of the different subject areas imbue the love of culture and the arts and enhance the competence of the utilization of technology in the learning-teaching process. The academic offerings of the school are complemented by special programs that foster experiential learning and development of leadership, social skills, and service among the students. These include the summer program FEUHS Integrated Enhancement and Reinforcement Classroom Experience (FIERCE); Student Training on Responsible Individuality and Development Enhancement Sessions (STRIDES); the club program – Multiple Intelligence Learning Enhancement Sessions (MILES); alternative classes – Student Alternative Integrated Learning Sessions (SAILS),) programs under the Guidance Office for Counseling Assessment Research and Evaluation, and various leadership and outreach programs among others.

- **RCI**

A private, non-sectarian college system which was incorporated in 1946, RCI is a respected pioneer in tertiary and basic education in eastern Metro Manila and the Province of Rizal. RCI currently offers preschool, elementary, secondary, and senior high school courses in all of its five campuses (Cainta, Cubao, Marikina, Rodriguez, and San Mateo). A special science program, as well as tertiary education and graduate school programs, are offered in the Cainta campus. RCI ended AY 2016–2017 with 5,230 students of which 62% were in high school. RCI Rodriguez has the largest student population at 1,850, with two-thirds in high school.

Under FEU management, RCI remained dedicated to the pursuit of providing high-quality education to all Roosevelt students. RCI reaffirmed its commitment to academic excellence by strengthening its instruction, research, faculty development, and improving its facilities. The institution will continue to introduce innovative approaches to improve all educational programs.

RCI envisions a productive and responsible citizenry empowered through education. Promoting the values of *resilience*, *competence*, and *integrity*, RCI aims to provide an education that will help its students become engaged members of the community, the country, and the world.

- **FEU Alabang *(to be operated by FEU Alabang, Inc.)***

FEU continues its mission to provide quality education as it is set to open its sixth campus at Filinvest City, Alabang in 2018. The 1.8-hectare campus will feature a 15-storey academic building with laboratory facilities and classrooms for the institution's business, science IT, and engineering programs. FEU Alabang will also have a 7-storey administration building with an auditorium, gymnasium, centralized library, and open spaces.

With its prime location and a vast array of program offerings, the campus can accommodate up to 18,000 students. As the University prides itself on the long-standing commitment to preserving the environment and natural resources, the Alabang campus will have sustainable structures which will use the sun's orientation and prevailing wind direction for light and ventilation conservation.

Situated in the heart of Filinvest City, FEU Alabang is set to give future students the complete academic experience with great accessibility to a multitude of opportunities. Surrounded by multinational companies which FEU recognizes as industry partners, students will have an advantage in gaining south-after internships and rewarding future careers.

Set to become one of the pioneering academic institutions in the area, FEU Alabang will offer the following programs:

- ***Senior High School (STEM, ABM, HUMSS and GAS)***
- ***Bachelor of Science in Civil Engineering***
- ***Bachelor of Science in Computer Engineering***
- ***Bachelor of Science in Electronics Engineering***
- ***Bachelor of Science in Electrical Engineering***
- ***Bachelor of Science in Mechanical Engineering***
- ***Bachelor of Science in Construction Engineering and Management***
- ***Bachelor of Science in Manufacturing Engineering***
- ***Bachelor of Science in Information Technology***
- ***Bachelor of Arts in Multimedia Arts***
- ***Bachelor of Science in Computer Science***
- ***Bachelor of Science in Entertainment and Multimedia Computing***
- ***Bachelor of Science in Accountancy***
- ***Bachelor of Science in Business Administration***
- ***Bachelor of Science in Entrepreneurship***
- ***Bachelor of Science in Management Accounting***
- ***Bachelor of Science in Accounting Information System***
- ***Bachelor of Science in Internal Auditing***
- ***Bachelor of Science in Business Analytics***
- ***Bachelor of Science in Biology***
- ***Bachelor of Science in Medical Technology***
- ***Bachelor of Science in Psychology***
- ***Bachelor of Science in Pharmacy***

## V. Market Acceptability

Below is a schedule of the Group's first semester enrollment for the past five years.

| School Year | No. of Students | Increase / (Decrease) |
|---|---|---|
| 2013 – 2014 | 29,742 | - |
| 2014 - 2015 | 31,869 | 2,127 |
| 2015 - 2016 | 34,163 | 2,294 |
| 2016 - 2017 | 36,839 | 2,676 |
| 2017 - 2018 | 33,256 | (3,583) |

The substantial enrollment despite difficult times, coupled with the effects of the K-12 program, is an indication that FEU remains one of the better choices among the various colleges and universities in the metropolis. Also, FEU continues to expand its reach in senior high school and basic education.

## *FORMULA USED:*

**I. Liquidity**

*1* Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

*2* Acid test ratio = $\frac{\text{Quick assets}}{\text{Current liabilities}}$

**II. Solvency**

*1* Debt to Equity ratio = $\frac{\text{Total liabilities}}{\text{Total equity}}$

*2* Debt to Asset ratio = $\frac{\text{Total liabilities}}{\text{Total assets}}$

*3* Equity to Asset ratio = $\frac{\text{Total equity}}{\text{Total assets}}$

**III. Profitability**

*1* Return on assets = $\frac{\text{Net profit}}{\text{Total assets}}$

*2* Return on owner's equity = $\frac{\text{Net profit}}{\text{Total equity}}$

*3* Earnings per share = $\frac{\text{Net profit}}{\text{Weighted average outstanding shares}}$

## *FACTS (Based on Consolidated Balances):*

| | ( Amounts in Million Pesos ) | | |
|---|---|---|---|
| | As of and for the periods ended: | | |
| | **August 31, 2017 ( Three Months )** | May 31, 2017 ( One Year ) | August 31, 2016 ( Three Months ) |
| **FINANCIAL POSITION** | | | |
| ***Assets:*** | | | |
| Quick assets* | **P 5,389.94** | P 4,348.81 | P 4,753.80 |
| Current assets | **6,220.27** | 5,029.60 | 5,003.81 |
| Non-current asset | **6,931.06** | 6.926.55 | 6,723.67 |
| Total assets | **13,151.33** | 11,956.15 | 11,727.48 |
| ***Liabilities:*** | | | |
| Current liabilities | **P 2,635.91** | P 1,441.18 | P 2,063.27 |
| Non-current liabilities | **1,703.28** | 1,692.34 | 1,549.08 |
| Total liabilities | **4,339.19** | 3,133.52 | 3,612.35 |
| ***Equity:*** | | | |
| Total equity | **P 8,812.14** | P 8,822.63 | P 8,115.14 |
| • Attributable to owners of the Parent Company | **6,693.92** | 6,712.12 | 6,305.30 |
| • Non-controlling interest | **2,118.22** | 2,110.51 | 1,809.84 |
| **RESULTS OF OPERATIONS*** | | | |
| ***Net Profit:*** | | | |
| Operating income (loss) | **(P 49.27)** | P 767.25 | P 26.04 |
| Other income - net | **44.87** | 160.48 | 33.65 |
| Net profit (loss) before tax | **( 4.41)** | 927.74 | 59.69 |
| Profit (loss) after tax | **( 20.64)** | 806.45 | 45.14 |
| • Attributable to owners of the Parent Company | **( 28.35)** | 749.52 | 31.29 |
| • Non-controlling interest | **7.71** | 56.93 | 13.85 |
| ***Other Comprehensive Income:*** | | | |
| Other comprehensive income (loss) | **P 10.16** | (P 20.22) | P 52.89 |
| Total comprehensive income (loss) | **( 10.48)** | 786.23 | 98.03 |

**Decrease in net income due to the second year of implementation of K-12. There were lesser college freshmen and sophomore students (see Note on* ***Tuition fees – net in page 8*** *and* ***Note 12 in page 24)***

| | For the periods ended: | | |
|---|---|---|---|
| | **August 31, 2017 ( Three Months)** | May 31, 2017 ( One Year ) | August 31, 2016 ( Three Months ) |
| ***Others:*** | | | |
| Weighted average number of shares outstanding | **16,431,159** | 16,434,790 | 16,439,038 |

* *Quick assets include Cash and Cash Equivalents, Trade and Other Receivables – net, Available-for-Sale Financial Assets (under Current Assets), HTM Investments (under Current Assets) and Short-term Investment which is included as part of Other Current Assets – net.*

## Other Items

1. The current economic condition remains stable but, certain economic factors are still expected to affect the Group's revenue from operations.

2. There are no known events that would result in any default or acceleration of an obligation.

3. There are no known events that will trigger direct or contingent financial obligation that may be material to the Group.

4. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons which are created during the reporting period.

5. The Group does not foresee any cash flow or liquidity problem in the next 12 months immediately following the report date. The Group and each of the component entities can easily meet all its commitments with its present reserves and expected earnings.

6. There are no significant elements of income or loss from continuing operations.

7. There are no Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction.

8. FEU Makati Campus, which was opened in June 2010 and strategically located at the heart of the Makati Central Business District, continues to offer undergraduate business courses. Further, FEU Makati offers graduate programs for business and also houses FEU's Institute of Law.

9. In January 2013, FEU established its new subsidiary FEU Alabang, Inc. The new subsidiary will operate as an educational institution and will serve its market within its vicinity and nearby communities. The formal ground-breaking ceremony for the construction of the future FEU Alabang campus was held on November 2015.

   As of August 31, 2017, FEU Alabang, Inc. has not yet commenced its normal operations and still in its pre-operating stage; however, it already started the construction of its campus.

10. EACCI, under the trade name FEU Institute of Technology (FEU Tech), started its operations in 2015. FEU Tech is now in full operations. It offers various engineering and information technology courses.

    FEU Tech continuous be one of the preferred schools for engineering and information technology as it opened its AY 2017-2018 with 6,419 students.

11. Seasonal aspects that has material effect on financial statements:

    For FEU Manila and FEU Cavite, there are three school terms within a fiscal year: Summer Term (June to July for FEU Manila, while April to May for FEU Cavite,), First Semester (August to December for FEU Manila, while June to October for FEU Cavite) and Second Semester (January to May for FEU Manila and November to March for FEU Cavite).

    The first semester has the highest number of students enrolled. The second semester enrollment is approximately at 90% of the first semester's enrollment, while the summer term is the lowest at an approximate of 33%. The maximum load, in terms of subject units, of a student during the summer term is only nine units compared to 21 to 24 units during the first and second semesters.

    For FEU Tech, there are three regular terms in a fiscal year: First Term (August to November), Second Term (November to March) and Third Term (March to June).

    The tuition fee increase, if any, usually takes effect during the first semester of a particular school year. Thus, old rates are followed during the summer term while new rates are applied during the first and second semesters. Since the first quarter is from June to August, the resulting income for the first quarter is at the lowest among the four quarters of the fiscal year.

12. The K-12 program of the government is anticipated to have an adverse effect on enrollment, particularly on AY 2017-2018. With the enhancement of the current 10-year basic education program, high school graduates need to undergo the senior high school program for two years starting AY 2016-2017 before being able to move on to the college level. With this, it is expected that there will be no (or minimal) college freshmen enrollees for the AY 2016-2017 and AY 2017-2018.

To cushion the expected impact of K-12, FEU had organized a new subsidiary to offer and conduct enhanced basic education programs, including junior and senior high school. On June 2014, FEU High School, Inc. (FEU High) was incorporated and registered with the Philippine Securities and Exchange Commission with the primary purpose of offering pre-school, grade school and high school education programs and various technical and vocational education and training programs. FEU High started its operations beginning AY 2016-2017.

With EACCI, now in full operations as an educational institution, the Group is confident of not only maintaining the quality and high standards of its service offerings, but continuing its development for further academic excellence.

13. On May 12, 2016, pursuant to the Share Purchase Agreement entered into between FEU and the selling stockholders of RCI for the sale and purchase of 99.42% of RCI's issued and outstanding shares, the University acquired a total of 235,427 shares of stock of RCI. The acquired shares account for 79.72% of the total outstanding shares of RCI, thereby, making it a subsidiary of the University.

    During the year ended May 31, 2017, the University acquired additional 52,349 shares of stock of RCI from various selling stockholders of RCI. The additional shares are equivalent to 17.71% of the total outstanding shares of RCI. As of August 31 and May 31, 2017, the University already owns 97.43% of RCI's total outstanding shares.

14. On March 15, 2016, the University's Board of Trustees approved the amendment of its by-laws for the change in the University's current fiscal year from a fiscal year beginning on April 1 and ending on March 31, to a fiscal year beginning on June 1 and ending on May 31. The amended by-laws was approved by the SEC on June 29, 2016. The University's application for change in fiscal year was approved by the Bureau of Internal Revenue on June 30, 2016. Such change became effective on June 1, 2016.

Overall, even with the impacts of K-12, the Management is confident that the Group will maintain its financial stability. FEU will continuously uplift its academic standards and work to achieve all its aspirations.

**THE FAR EASTERN UNIVERSITY, INCORPORATED AND SUBSIDIARIES**
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**AUGUST 31 AND MAY 31, 2017**
***(Amounts in Philippine Pesos)***

| | **August 31, 2017** *(UNAUDITED)* | May 31, 2017 *(AUDITED)* |
|---|---|---|
| **A S S E T S** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | **P 1,730,408,802** | P 1,526,201,248 |
| Trade and other receivables - net | **1,131,581,187** | 446,699,264 |
| Available-for-sale financial assets | **2,310,576,743** | 2,139,654,834 |
| Held-to-maturity investments | **67,284,019** | 95,148,019 |
| Real estate held-for-sale | **141,663,716** | 141,547,959 |
| Other current assets - net | **838,756,381** | 680,352,309 |
| Total Current Assets | **6,220,270,848** | 5,029,603,633 |
| **NON-CURRENT ASSETS** | | |
| Trade and other receivables - net | **2,848,617** | 1,701,014 |
| Available-for-sale financial assets | **34,378,086** | 138,991,746 |
| Held-to-maturity investments | **241,418,315** | 241,418,315 |
| Investment in an associate | **6,585,801** | 6,585,801 |
| Property and equipment - net | **5,752,683,505** | 5,675,099,744 |
| Investment property - net | **566,884,367** | 567,045,862 |
| Goodwill | **186,487,019** | 186,487,019 |
| Deferred tax assets - net | **20,272,377** | 20,272,377 |
| Other non-current assets | **119,502,069** | 88,942,544 |
| Total Non-current Assets | **6,931,060,156** | 6,926,544,422 |
| **TOTAL ASSETS** | **P 13,151,331,004** | P 11,956,148,055 |

*- 2 -*

| | August 31, 2017 (UNAUDITED) | May 31, 2017 (AUDITED) |
|---|---|---|
| **LIABILITIES AND EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Trade and other payables | **P 765,553,441** | P 958,063,062 |
| Interest-bearing loans | **578,095,238** | 332,857,143 |
| Derivative liability | **33,365,459** | 33,365,459 |
| Deferred revenues | **1,222,587,642** | 75,199,534 |
| Provisions | **21,197,023** | 19,694,375 |
| Income tax payable | **15,113,172** | 22,006,031 |
| Total Current Liabilities | **2,635,911,975** | 1,441,185,604 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing loans | **1,630,000,000** | 1,617,142,857 |
| Post-employment benefit obligation | **57,592,048** | 59,800,703 |
| Deferred tax liabilities - net | **10,697,213** | 10,697,213 |
| Other non-current liabilities | **4,988,410** | 4,696,331 |
| Total Non-current Liabilities | **1,703,277,671** | 1,692,337,104 |
| Total Liabilities | **4,339,189,646** | 3,133,522,708 |
| **EQUITY** | | |
| Equity attributable to owners of the parent company | | |
| Capital stock | **1,651,435,400** | 1,651,435,400 |
| Treasury stock - at cost | **( 49,362,563 )** | ( 49,362,563 ) |
| Revaluation reserves | **49,860,053** | 39,707,565 |
| Other reserves | **( 57,785,452 )** | ( 57,785,452 ) |
| Retained earnings | **5,099,771,463** | 5,128,123,327 |
| Total equity attributable to owners of parent company | **6,693,918,901** | 6,712,118,277 |
| Non-controlling interests | **2,118,222,457** | 2,110,507,070 |
| Total Equity | **8,812,141,358** | 8,822,625,347 |
| **TOTAL LIABILITIES AND EQUITY** | **P 13,151,331,004** | P 11,956,148,055 |

***See Notes to Consolidated Financial Statements.***

**THE FAR EASTERN UNIVERSITY, INCORPORATED AND SUBSIDIARIES**
**INTERIM CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**
**FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | 2017 | 2016 |
|---|---|---|
| **REVENUES** | | |
| Educational | | |
| Tuition fees - net | P 341,830,394 | P 359,848,071 |
| Other school fees | 25,082,061 | 14,406,866 |
| | 366,912,455 | 374,254,937 |
| Rental | 8,421,521 | 8,785,871 |
| | 375,333,976 | 383,040,808 |
| **COSTS AND OPERATING EXPENSES** | ( 424,656,629 ) | ( 357,361,102 ) |
| **OTHER OPERATING INCOME** | 48,320 | 364,045 |
| **OPERATING INCOME (LOSS)** | ( 49,274,333 ) | 26,043,751 |
| **FINANCE INCOME** | 40,856,439 | 29,938,759 |
| **FINANCE COSTS** | ( 15,707,681 ) | ( 4,213,015 ) |
| **OTHER INCOME** | 19,719,663 | 7,920,085 |
| **PROFIT (LOSS) BEFORE TAX** | ( 4,405,912 ) | 59,689,580 |
| **TAX EXPENSE** | ( 16,230,565 ) | ( 14,552,854 ) |
| **NET PROFIT (LOSS)** | ( P 20,636,477 ) | P 45,136,726 |
| **Attributable to:** | | |
| Owners of the parent company | ( P 28,351,864 ) | P 31,291,903 |
| Non-controlling interests | 7,715,387 | 13,844,823 |
| | ( P 20,636,477 ) | P 45,136,726 |
| **Earnings (Loss) Per Share** | | |
| Basic and Diluted | ( P 1.73 ) | P 1.90 |

***See Notes to Consolidated Financial Statements.***

**THE FAR EASTERN UNIVERSITY, INCORPORATED AND SUBSIDIARIES**
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | 2017 | 2016 |
|---|---|---|
| **NET PROFIT (LOSS)** | ( P 20,636,477 ) | P 45,136,726 |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Item that will be reclassified subsequently to profit or loss** | | |
| Fair value gains on available-for-sale financial assets - net of tax | P 10,152,488 | P 52,891,100 |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | ( P 10,483,989 ) | P 98,027,826 |
| **Attributable to:** | | |
| Owners of the parent company | ( P 18,199,376 ) | P 84,183,003 |
| Non-controlling interests | 7,715,387 | 13,844,823 |
| | ( P 10,483,989 ) | P 98,027,826 |

***See Notes to Consolidated Financial Statements.***

**THE FAR EASTERN UNIVERSITY, INCORPORATED AND SUBSIDIARIES**
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016**
***(Amounts in Philippine Pesos)***

| | Attributable to Owners of the Parent Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Retained Earnings | | | | |
| | Capital Stock | Treasury Stock - at Cost | Revaluation Reserves | Other Reserves | Appropriated | Unappropriated | Total | Non-controlling Interests | Total Equity |
| Balance at June 1, 2017 | P 1,651,435,400 | (P 49,362,563) | P 39,707,565 | (P 57,785,452) | P 2,573,733,100 | P 2,554,390,227 | P 5,128,123,327 | P 2,110,507,070 | 8,822,625,347 |
| Appropriations of retained earnings | | | | | | | | | |
| Appropriations for the period | - | - | - | - | 520,000,000 | (520,000,000) | - | - | - |
| Reversal of appropriations during the period | - | - | - | - | (250,000,000) | 250,000,000 | - | - | - |
| | - | - | - | - | 270,000,000 | (270,000,000) | - | - | - |
| Total comprehensive income (loss) | | | | | | | | | |
| Net income (loss) for the period | - | - | - | - | - | (28,351,864) | (28,351,864) | 7,715,387 | (20,636,477) |
| Other comprehensive income | - | - | 10,152,488 | - | - | - | - | - | 10,152,488 |
| | - | - | 10,152,488 | - | - | (28,351,864) | (28,351,864) | 7,715,387 | (10,483,989) |
| **Balance at August 31, 2017** | **P 1,651,435,400** | **(P 49,362,563)** | **P 49,860,053** | **(P 57,785,452)** | **P 2,843,733,100** | **P 2,256,038,363** | **P 5,099,771,463** | **P 2,118,222,457** | **P 8,812,141,358** |
| Balance at June 1, 2016 | P 1,651,435,400 | (P 38,655,641) | P 64,154,878 | P - | P 2,573,733,100 | P 2,167,781,620 | P 4,741,514,720 | P 1,795,990,370 | P 8,214,439,727 |
| Transactions with owners | | | | | | | | | |
| Cash dividends | - | - | - | - | - | (197,328,457) | (197,328,457) | - | (197,328,457) |
| Total comprehensive income | | | | | | | | | |
| Net profit for the period | - | - | - | - | - | 31,291,903 | 31,291,903 | 13,844,823 | 45,136,726 |
| Other comprehensive income | - | - | 52,891,100 | - | - | - | - | - | 52,891,100 |
| | - | - | 52,891,100 | - | - | 31,291,903 | 31,291,903 | 13,844,823 | 98,027,826 |
| Balance at August 31, 2016 | P 1,651,435,400 | (P 38,655,641) | P 117,045,978 | P - | P 2,573,733,100 | P 2,001,745,066 | P 4,575,478,166 | P 1,809,835,193 | P 8,115,139,096 |

***See Notes to Consolidated Financial Statements.***

**THE FAR EASTERN UNIVERSITY, INCORPORATED AND SUBSIDIARIES**
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit (loss) before tax | ( P 4,405,912 ) | P 59,689,580 |
| Adjustments for: | | |
| Depreciation and amortization | 69,582,731 | 65,055,200 |
| Finance income | ( 40,856,439 ) | ( 29,938,759 ) |
| Interest expense | 15,707,681 | 4,213,015 |
| Operating profit before working capital changes | 40,028,061 | 99,019,036 |
| Increase in trade and other receivables | ( 686,029,526 ) | ( 752,733,417 ) |
| Increase in real estate held-for-sale | ( 115,757 ) | - |
| Increase in other assets | ( 37,515,731 ) | ( 22,139,204 ) |
| Increase (decrease) in trade and other payables | ( 130,163,001 ) | 82,898,292 |
| Increase in deferred revenues | 1,147,388,108 | 1,093,183,642 |
| Increase in provisions | 1,502,648 | - |
| Decrease in post-employment benefit obligation | ( 2,208,655 ) | - |
| Increase (decrease) in other non-current liabilities | 292,079 | ( 3,987,592 ) |
| Cash generated from operations | 333,178,226 | 496,240,757 |
| Income taxes paid | ( 5,984,232 ) | ( 5,639,545 ) |
| Net Cash From Operating Activities | 327,193,994 | 490,601,212 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Investment in other short-term investments | ( 150,090,556 ) | - |
| Acquisitions of property and equipment | ( 139,403,782 ) | ( 136,141,158 ) |
| Net acquisitions of AFS financial assets | ( 52,692,827 ) | ( 18,991,255 ) |
| Matured held-to-maturity investments | 27,864,000 | - |
| Advance payments to developers | ( 18,496,502 ) | ( 2,887,108 ) |
| Additions to investment properties | ( 7,601,215 ) | ( 13,697,775 ) |
| Interest received | 37,393,505 | 29,938,759 |
| Acquisition of new subsidiary | - | ( 84,453,380 ) |
| Net Cash Used in Investing Activities | ( 303,027,377 ) | ( 226,231,917 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds of interest-bearing loans | P 300,000,000 | - |
| Dividends paid | ( 62,346,620 ) | ( 355,364,286 ) |
| Repayments of interest-bearing loans | ( 41,904,762 ) | ( 8,000,000 ) |
| Interest paid | ( 15,707,681 ) | ( 4,213,015 ) |
| Net Cash From (Used in) Financing Activities | 180,040,937 | ( 367,577,301 ) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 204,207,554 | ( 103,208,006 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 1,526,201,248 | 1,213,350,580 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | P 1,730,408,802 | P 1,110,142,574 |

***See Notes to Consolidated Financial Statements.***

**THE FAR EASTERN UNIVERSITY, INCORPORATED AND SUBSIDIARIES**
**CONSOLIDATED SCHEDULE OF AGING OF RECEIVABLES**
**AUGUST 31, 2017**
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

| | Current | | | | |
|---|---|---|---|---|---|
| | **One to Six Months** | **Seven Months to One Year** | **More than One Year** | **Past Due** | **Total** |
| ***Non-trade Receivables:*** | | | | | |
| Official and Personal | P 9,971,953 | P 288,552 | P - | P - | P 10,260,505 |
| SSS Sickness Benefit | 535,549 | 10,080 | 10,200 | - | 555,829 |
| Receivable from: | | | | | |
| East Asia Educational Foundation, Inc. | 64,239,458 | - | - | - | 64,239,458 |
| FEU Public Policy Foundation | 2,021,729 | - | - | - | 2,021,729 |
| Alphaland Corporation | 510,000 | - | - | - | 510,000 |
| MOLDEX Realty, Inc. | 100,000 | - | - | - | 100,000 |
| Others | 1,102,560 | - | 2,848,617 | - | 3,951,177 |
| **TOTALS** | **P 78,481,249** | **P 298,632** | **P 2,858,817** | **P -** | **P 81,638,698** |

**THE FAR EASTERN UNIVERSITY, INCORPORATED**
**AND SUBSIDIARIES**
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**AUGUST 31, 2017**
***(With Comparative Figures as of May 31, 2017)***
***(Amounts in Philippine Pesos)***
***(UNAUDITED)***

## 1. CORPORATE INFORMATION

### *1.1 Background of the University*

The Far Eastern University, Incorporated (the University, FEU or parent company) is a domestic educational institution founded in June 1928, incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on October 27, 1933. On October 27, 1983, the University extended its corporate life to another 50 years. It became a listed corporation in the Philippine Stock Exchange (PSE) on July 11, 1986.

The University is a private, non-sectarian institution of learning comprising the following different institutes, that offer specific courses, namely: Institute of Arts and Sciences; Institute of Accounts, Business and Finance; Institute of Education; Institute of Architecture and Fine Arts; Institute of Nursing; Institute of Tourism and Hotel Management and Institute of Law.

Several programs of FEU, such as Liberal Arts, Applied Mathematics, Biology, Accountancy, Business Administration, Tourism, Fine Arts, and Education, are accredited by the Philippine Association of Colleges and Universities Commission on Accreditation.

As of August 31 and May 31, 2017 the University holds interest in the following subsidiaries and associate which were all incorporated and operating in the Philippines:

| | Percentage of Effective Ownership | |
|---|---|---|
| Company Name | **August 31** | May 31 |
| Subsidiaries: | | |
| East Asia Computer Center, Inc. (EACCI) | **100%** | 100% |
| Far Eastern College – Silang, Inc. (FECSI) | **100%** | 100% |
| FEU Alabang, Inc. (FEUAI) | **100%** | 100% |
| FEU High School, Inc. (FEU High) | **100%** | 100% |
| Roosevelt College, Inc. (RCI) | **97.43%** | 97.43% |
| Roosevelt College Educational Enterprises (RCEE)* | **97.43%** | 97.43% |
| Fern Realty Corporation (FRC) | **37.52%** | 37.52% |
| Associate – | | |
| Juliana Management Company, Inc. (JMCI) | **49%** | 49% |

**Indirectly through the University's ownership of RCI which owns 100% ownership interest in RCEE (see Note 1.2)*

The parent company and its subsidiaries and associate are collectively referred to herein as the Group.

Similar to the University, FECSI, EACCI, FEUAI and RCI were established to operate as educational institutions offering general courses of study. FRC, on the other hand, operates as a real estate company leasing most of its investment properties to the University and other related parties, while RCEE is presently engaged in selling educational school supplies and snacks in the campus of RCI.

On June 24, 2014, FEU High was established to offer and conduct enhanced basic education programs. It will offer programs for senior high school in response to the implementation of the K-12 program.

As of August 31, 2017, FEUAI is the only subsidiary of the University that has not yet started commercial operations, and will be conferred as a school by the Department of Education and Commission on Higher Education only after the construction of its school building.

### *1.2 Acquisition of a New Subsidiary*

On May 12, 2016, pursuant to the Share Purchase Agreement (SPA) entered into between FEU and the selling stockholders of RCI for the sale and purchase of 99.42% of RCI's issued and outstanding shares, the University acquired a total of 235,427 shares of stock of RCI. The acquired shares account for 79.72% of the total outstanding shares of RCI, thereby, making it a subsidiary of the University in 2016.

During the year ended May 31, 2017, the University acquired additional 52,349 shares of stock of RCI from various selling stockholders of RCI. The additional shares are equivalent to 17.71% of the total outstanding shares of RCI. As of August 31 and May 31, 2017, the University already owns 97.43% of RCI's total outstanding shares.

As of August 31 and May 31, 2017, RCI owns 100% ownership interest in RCEE which was incorporated in 1992.

As at the acquisition date, the fair value of the University's share in RCI's net identifiable assets amounts to P621.8 million resulting to the recognition of goodwill amounting to P186.5 million. The goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the University and RCI. The goodwill recognized is subject to annual impairment testing (see Notes 2.4 and 2.16).

Pursuant to the SPA, portion of the cash consideration given is retained by the University to ensure compliance by the selling shareholders of RCI to certain terms of the SPA.

### *1.3 Other Corporate Information*

The University also has a campus in Makati, which offers Law, Accountancy, Business and Information Technology education.

The registered offices and principal places of business of the University and its subsidiaries and associate are as follows:

| | | |
|---|---|---|
| FEU and FEU High | - | Nicanor Reyes, Sr. Street, Sampaloc, Manila |
| EACCI | - | P. Paredes Street, Sampaloc, Manila |
| FECSI | - | Metrogate Silang Estates, Silang, Cavite |
| FEUAI | - | Lot 1, Corporate Woods cor. South Corporate Avenues, Woods District, Filinvest City, Alabang, Muntinlupa City |
| FRC | - | Administration Building, FEU Compound, Nicanor Reyes, Sr. Street, Sampaloc, Manila |
| RCI | - | No. 54 J. P. Rizal Street, Lamuan, Marikina City |
| RCEE | - | Roosevelt College Compound, Sumulong Highway Cainta, Rizal |
| JMCI | - | E. Rodriguez Jr. Avenue corner Cpl. Cruz St., Bagong Ilog, Pasig City |

### *1.4 Approval for Issuance of Interim Consolidated Financial Statements*

The Interim Consolidated Financial Statements (ICFS) of the Group for the three months ended August 31, 2017 (including the comparatives for the three months ended August 31, 2016) were authorized for issue by the Audit Committee of the Board of Trustees (BOT) on October 5, 2017.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### *2.1 Basis of Preparation of the Consolidated Financial Statements*

*(a) Statement of Compliance with Interim Financial Reporting Standards*

These ICFS have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with Philippine Financial Reporting Standards (PFRS), and should be read in conjunction with the Group's audited consolidated financial statements (ACFS) as of and for the fiscal year ended May 31, 2017.

The ICFS have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*(b) Application of PFRS*

The significant accounting policies and methods of computation used in the preparation of these ICFS are consistent with those applied in the ACFS as of and for the fiscal year ended May 31, 2017.

There are new PFRS, annual improvements and interpretations to the existing standards that are effective for periods subsequent to 2017 but were not adopted early for the preparation of the ICFS. The ICFS, therefore, do not reflect the impact of any adoption of these new PFRS, annual improvements and interpretations to existing standards effective for periods subsequent to 2017.

*(c) Presentation of the Interim Consolidated Financial Statements*

The presentation of the ICFS is consistent with the most recent ACFS presentation. Regrouping of certain accounts in the comparative prior period presented was made to conform to the current period's presentation so that comparability is not impaired.

The Group presents the consolidated statement of comprehensive income separately from the consolidated statement of profit or loss as management deemed it as a more appropriate presentation of the statements of the Group.

*(d) Functional and Presentation Currency*

These ICFS are presented in Philippine pesos, the Group's functional currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using its functional currency (see Note 2.15). Functional currency is the currency of the primary economic environment in which the Group operates.

### *2.2 Adoption of New and Amended PFRS*

*(a) Effective in Fiscal Year 2018 that are Relevant to the Group*

The Group adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual period beginning on or after January 1, 2017 but had no significant effect on the consolidated financial statements:

| | | |
|---|---|---|
| PAS 7 (Amendments) | : | Statement of Cash Flows – Disclosure Initiatives |
| PAS 12 (Amendments) | : | Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses |

Discussed below and in the succeeding page are relevant information about these amendments and improvements.

(i) PAS 7 (Amendment), *Statement of Cash Flows – Disclosure Initiative*. The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(ii) PAS 12 (Amendment), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

*(b) Effective Subsequent to Fiscal Year 2018 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to fiscal year 2017, which are adopted by the Financial Reporting Standards Council (FRSC). Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements.

(i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the outstanding principal. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity’s own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(ii) PFRS 15, *Revenues from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Relative to the adoption of PFRS 15 in the Philippines, the FRSC also approved the issuance of Philippine Interpretations Committee Question & Answer No. 2016-04, Application of PFRS 15, "*Revenue from Contracts with Customers," on Sale of Residential Properties under Pre-completion Contracts*, which provides that sales of residential properties under pre-completion stage can be recognized over time until completion of construction.

Management is currently assessing the impact of this standard on the Group's consolidated financial statements.

(iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its consolidated financial statements.

(iv) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

### *2.3 Basis of Consolidation*

The Group's consolidated financial statements comprise the accounts of the University and its subsidiaries as enumerated in Note 1.1, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. In addition, the shares of the parent company held by the subsidiaries are recognized as treasury stocks and are presented as deduction in the consolidated statement of changes in equity. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The following subsidiaries prepare their financial statements for their respective reporting periods using consistent accounting principles as that of the University:

| | | |
|---|---|---|
| March 31 | - | FEU High, FECSI, FRC and FEUAI |
| May 31 | - | RCI and RCEE |
| June 30 | - | EACCI |

The University accounts for its investments in subsidiaries, associate and non-controlling interests (NCIs) as follows:

*(a) Investments in Subsidiaries*

Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries (see Note 2.4).

*(b) Investment in an Associate*

Associate is an entity over which the Group is able to exercise significant influence but which is neither a subsidiary nor interest in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investment in an associate. All subsequent changes to the share in the equity of the associate are recognized in the carrying amount of the Group's investment.

Changes resulting from the profit or loss generated by the associate, if any, are reported as Other Income or Other Charges, respectively, in the Group's consolidated statement of profit or loss and, therefore, affect the net results of operations of the Group.

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in consolidated other comprehensive income or equity of the Group, as applicable. However, when the Group's share of net losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of net losses that has previously not been recognized.

Distributions received from the associate are accounted for as a reduction of the carrying value of the investment.

In computing the Group's share in net profit or loss of the associate, unrealized gains or losses on transactions between Group and its associate are eliminated to the extent of the Group's interest in the associate. Where unrealized losses are eliminated, the underlying asset is also tested for impairment from a group perspective.

*(c) Transactions with NCIs*

The Group's transactions with NCIs that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments in NCIs result in gains and losses which the Group also recognizes in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in consolidated other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in consolidated other comprehensive income are reclassified to consolidated profit or loss.

### *2.4 Business Combinations*

Business acquisitions are accounted for using the acquisition method of accounting. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any NCI in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the University, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in consolidated profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the University recognizes any NCI in the acquiree, either at fair value or at the NCI's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

Gain on bargain purchase, which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost, is charged directly to income.

For the purpose of impairment testing (see Note 2.16), goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the consolidated profit or loss or consolidated other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in consolidated profit or loss or as a charge to consolidated other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

### *2.5 Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

*(a) Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets relevant to the Group is discussed in the below.

*(i) Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group entered into a cross-currency swap agreement to manage its risks associated with fluctuations in foreign currency-denominated investments in corporate bonds. The host instruments are classified as HTM investments. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is favorable to the Group and as liabilities when the fair value is favorable to the counterparty (see Note 2.10). Thus, if derivative asset is recognized, it is presented as Financial Asset at FVTPL; otherwise, it is presented as Derivative Liability in the consolidated statements of financial position.

The Group's derivative instruments provide economic hedges under the Group's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken up directly in consolidated profit or loss for the period.

*(ii) 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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to officers and employees), part of Other Current Assets, with respect to short-term investments, and part of Other Non-current Assets, with respect to refundable deposits, in the consolidated statements of financial position.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

*(iii) HTM Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Group were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS financial assets. The Group currently holds corporate bonds designated into this category.

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

*(iv) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets include listed equity securities, corporate and government bonds and unit investment trust funds (UITF).

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses from changes in fair value of AFS financial assets are recognized in consolidated other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity. Interest and dividend income, impairment losses and foreign exchange differences on monetary assets are recognized in consolidated profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in consolidated other comprehensive income is reclassified from equity to consolidated profit or loss and is presented as reclassification adjustment within the consolidated other comprehensive income even though the financial asset has not been derecognized.

*(b) Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group recognizes impairment loss based on the category of financial assets as follows:

*(i) Carried at Amortized Cost – Loans and Receivables and HTM Investments*

If there is objective evidence that an impairment loss on loans and receivables or HTM investments has been incurred, the amount of the impairment loss is determined as the difference between the assets' 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 effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in consolidated profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in consolidated profit or loss.

*(ii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in consolidated other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in consolidated profit or loss – is reclassified from Revaluation Reserves to consolidated profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in consolidated profit or loss on equity instruments are not reversed through consolidated profit or loss. Reversal of impairment losses is recognized in consolidated other comprehensive income, except for financial assets that are debt securities, which are recognized in consolidated profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

*(c) Items of Income and Expense Related to Financial Assets*

All income and expenses, except those arising from operating activities, relating to financial assets that are recognized in consolidated profit or loss are presented as part of Finance Income or Finance Costs in the consolidated statement of profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in consolidated profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

*(d) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

### *2.6 Real Estate Held-for-Sale*

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property as well as related property development costs are accumulated in this account.

Real estate held-for-sale is carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

Real estate held-for-sale is expected to be sold within the normal operating cycle of FRC.

### *2.7 Property and Equipment*

Except for land, which is stated at cost less any impairment in value, property and equipment are stated at cost less accumulated depreciation, amortization and impairment in value, if any.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

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

| | |
|---|---|
| Building and improvements | 20 years |
| Furniture and equipment | 3-6 years |
| Miscellaneous equipment | 5 years |

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.18) and other directly attributable costs of bringing the asset to working condition for its intended use. The account is not depreciated until such time that the assets are completed and available for use.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, 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 item) is included in consolidated profit or loss in the period the item is derecognized.

### *2.8 Investment Property*

Investment property is measured initially at acquisition cost. Subsequently, investment property, except land, is carried at cost less accumulated depreciation and impairment in value. Depreciation and amortization of investment property, which consists of building and improvements, is computed using the straight-line method over its estimated useful life of 20 years. Land is carried at cost less impairment in value, if any.

Construction in progress includes condominium units of FRC that are still under construction. The asset is not depreciated until such time that the assets are completed and available for use.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the commencement of an operating lease to another party or by the end of construction or development, or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the cost of property for subsequent accounting is its carrying value at the date of change in use.

If an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property and Equipment up to the date of change in use (see Note 2.7).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in consolidated profit or loss in the period of retirement or disposal.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater that its estimated recoverable amount (see Note 2.16).

### *2.9 Prepayments and Other Assets*

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), these other assets are classified under the non-current category.

### *2.10 Financial Liabilities*

Financial liabilities, which include trade and other payables [except tax-related liabilities and National Service Training Program (NSTP) trust fund], interest-bearing loans, derivative liability, and refundable deposits, which is presented under Other Non-current Liabilities account, are recognized when the Group becomes a party to the contractual terms of the instrument.

Trade and other payables account include Deposits payable which represents funds collected from students or entities and are held by the Group. The Group has no control over its use and disburses the funds only upon instruction of the student or entity that made the deposit. This account also includes Trust funds which represent restricted funds of the University, FECSI and EACCI that are intended for student's NSTP and other specific educational purposes [see also Note 2.13(a)]. The University, FECSI and EACCI administer the use of these NSTP trust funds based on the specific purpose for which such funds are identified with.

Interest-bearing loans and borrowings are raised for support of capital expenditures and general corporate funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to consolidated profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost, except derivative liability which is consistently measured at fair value, using the effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group's Board of Directors or BOT.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period, or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in consolidated profit or loss.

### *2.11 Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

### *2.12 Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.13 Revenue and Expense Recognition*

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for services rendered, excluding value-added tax (VAT) and discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(a)* *Tuition and other school fees* – Revenue is recognized in consolidated profit or loss over the corresponding school term. Tuition fee received in advance and applicable to a school term after the reporting period is not recognized in consolidated profit or loss until the next reporting period and are presented as part of the Deferred Revenues account in the consolidated statement of financial position. Revenues from NSTP trust funds (see Note 2.10) are recognized upon fulfillment of conditions attached to the fund and/or up to the extent that the related expenses have been incurred. Restricted funds for which restrictions and conditions have not yet been met are recorded as NSTP trust fund under the Trade and Other Payables account in the consolidated statement of financial position.

*(b)* *Rental* – Revenue is recognized in the consolidated statement of profit or loss over the term of the lease using the straight-line method and, in certain cases, the amount determined using straight-line method or amount determined using a certain percentage of the lessee's gross annual revenue, whichever is higher. Rent received in advance is initially recorded as part of the Deferred Revenues account in the consolidated statement of financial position.

(c) *Sale of real estate* – Revenue is recognized when the earnings process is virtually complete and collectability of the entire sales price is reasonably assured.

(d) *Income from sale of books and other educational-related merchandise* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has acknowledged delivery of goods. The sale of this merchandise is made exclusively for the students of the University and FECSI. This auxiliary income is presented as part of Other Income account the consolidated statement of profit or loss.

(e) *Interest* – Income is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in consolidated profit or loss upon utilization of goods or services or at the date such cost and expenses are incurred. All finance costs are reported in the consolidated profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.18).

### *2.14 Leases*

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases, which do not transfer to the Group substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### *2.15 Foreign Currency Transactions and Translation*

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in consolidated profit or loss, and other changes in the carrying amount are recognized in consolidated other comprehensive income.

### *2.16 Impairment of Non-financial Assets*

The Group's investments in an associate, property and equipment, investment property, and certain other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, as indicated in Note 2.4, is tested for impairment annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets, except goodwill for which impairment loss is not reversed (see Note 2.4), are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

### *2.17 Employee Benefits*

The Group, except RCI, provides post-employment benefits to employees through a defined contribution plan subject to compliance to a minimum guarantee required by Republic Act (RA) No. 7641, *The Retirement Pay Law*, which is accounted for as a defined benefit plan, and various compensations mandated by law. Such application of the minimum guarantee prescribed by RA No. 7641 is based on the interpretations issued by the Philippine Interpretations Committee (PIC) in its Question and Answer on PAS 19 (Revised), *Employee Benefits – Accounting for Employee Benefits Under a Defined Benefit Contribution Plan Subject to the Requirements of RA 7641.*

*(a) Post-employment Benefits*

The Group maintains defined contribution and defined benefit plans. Under the defined contribution plan, the Group (except RCI) pays fixed contributions based on the employees' monthly salaries.

RCI, which does not have a formal post-employment benefit plan, bases its determination of post-employment benefit obligation on RA No. 7641, which is considered a defined benefit plan. RA No. 7641 provides for a qualified employee a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. The legal obligation for any benefits from this kind of post-employment plan remains with the entity even if plan assets, if any, for funding the defined benefit plan have been acquired.

The whole Group, however, is covered by RA No. 7641. Accordingly, the Group, except RCI, recognizes its post-employment benefit obligation based on the higher of the defined benefit obligation relating to the minimum guarantee required by RA No. 7641 and the obligation arising from the defined contribution plan. RCI accrues its post-employment benefit obligation solely based on minimum guarantee requirement of RA No. 7641.

For defined benefit plan, the liability recognized in the consolidated statement of financial position for a defined benefit plan is the present value of the defined benefit obligation (DBO) at the end of the reporting period. The DBO is calculated annually by an independent actuary using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing & Exchange Corp., that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in consolidated other comprehensive income in the period in which they arise. Net interest expense and other expenses related to the defined benefit plan are recognized in the consolidated statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in consolidated profit or loss. The Group recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

The defined contribution, on the other hand, is measured at the fair value of the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

*(b) Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Group recognizes termination benefits when it is demonstrably committed to either: (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or, (ii) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

*(c) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. These are included in the Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

### *2.18 Borrowing Costs*

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income, if any, earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

### *2.19 Income Taxes*

Tax expense recognized in consolidated profit or loss comprises the sum of deferred tax and current tax not recognized in consolidated other comprehensive income or directly in equity, if any.

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in consolidated profit or loss.

Deferred tax is accounted for using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in consolidated profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in consolidated other comprehensive income or directly in equity are recognized in consolidated other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset only if the University or any of its subsidiaries has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

### *2.20 Related Party Relationships and Transactions*

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless of whether a price is charged.

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

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### *2.21 Equity*

Capital stock represents the nominal value of shares that have been issued.

Treasury stocks are stated at the cost of reacquiring such shares and are deducted from equity attributable to the University's equity holders until the shares are cancelled, reissued or disposed of. This also includes shares of the parent company held by a certain subsidiary (see Note 2.3).

Revaluation reserves comprise accumulated gains or losses arising from the revaluation of AFS financial assets.

Other reserves refer to the amount attributable to the parent company arising from the changes in the ownership of the NCI in the Group.

Retained earnings, both restricted and available for dividend declaration, include all current and prior period results of operations as reported in the consolidated statement of profit or loss. The appropriated portion represents the amount which is not available for distribution.

NCI represents the interests not held by the Group in FRC and RCI. It also includes the preferred shares of stock of EACCI and FEUAI issued to a stockholder outside of the Group but under the Group's common management.

### *2.22 Earnings (Loss) Per Share*

Basic earnings (loss) per share (EPS) is determined by dividing net profit or loss attributable to equity holders of the University by the weighted average number of shares subscribed and issued during the period after giving retroactive effect to stock dividend declared, stock split and reverse stock split during the current period, if any.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. The Group does not have dilutive potential shares outstanding that would require disclosure of diluted EPS in the consolidated statement of profit or loss.

### *2.23 Events After the End of the Reporting Period*

Any post-year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

### *2.24 Segment Reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's strategic steering committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's product and service lines as disclosed in Note 7, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

## 3. USE OF JUDGMENTS AND ESTIMATES

The preparation of the ICFS in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

There were no changes in estimates of amounts reported in prior financial periods that have a material effect in the current interim period.

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to certain financial risks in relation to financial instruments. Its main purpose for its dealings in financial instruments is to fund operational and capital expenditures. The BOT has the overall responsibility for the establishment and oversight of the Group's risk management framework. It has a risk management committee headed by an independent trustee that is responsible for developing and monitoring the Group's policies, which address risk management areas.

Management is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of these policies in relation to the risks faced by the Group.

The Group does not engage in trading of financial assets for speculative purposes nor does it write options. Following are the most significant financial risks to which the Group is exposed to.

### *4.1 Market Risk*

*(a) Foreign Currency Risk*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from certain AFS financial assets and HTM investments which are denominated in US dollars (USD). The Group also holds USD-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk related to the foreign currency-denominated HTM investments, management entered into a cross-currency swap agreement. As to the dollar deposit, management keeps the amount of deposits at a low level.

*(b) Interest Rate Risk*

The Group's interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. The Group's exposure to interest rate risk arises from financial instruments which are subject to variable interest rates.

The Group manages its interest risk by leveraging the fixed interest rate financial instruments over the floating interest rate financial instruments.

*(c) Other Price Risk*

The Group's exposure to price risk arises from its investments in equity securities, which are classified as part of the AFS Financial Assets in the consolidated statements of financial position. These consist of publicly-listed equity securities which are carried at fair value.

Management monitors its equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis.

Based on the nature of the investments, management deemed that the risk on government and corporate bonds, and investments in UITF classified as AFS financial assets at the end of the period is not representative of a risk inherent in financial instruments. Moreover, the investments are considered medium to long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments, except those in connection with its investment in certain foreign currency-denominated corporate debt instruments which are also subject to a cross-currency swap agreement. The investments are continuously monitored to ensure that returns of these equity instruments are timely utilized or reinvested in the Group's favor.

### *4.2 Credit Risk*

Credit risk represents the loss the Group would incur if the counterparty fails to perform its contractual obligations. The Group's exposure to credit risk on its receivables relates primarily to the inability of the debtors to pay and the students to fully settle the unpaid balance of tuition fees and other charges which are owed to the Group based on installment payment schemes.

The Group has established controls and procedures to minimize risks of non-collection. Students are not allowed to enroll in the following semester unless the unpaid balance in the previous semester has been paid. The Group also withholds the academic records and clearance of the students with unpaid balances, thus, ensuring that collectability is reasonably assured. The Group's exposure to credit risk on its other receivables from debtors and related parties is managed through setting limits and monitoring closely said accounts.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position.

The Group's management considers that all financial assets are not impaired and of good credit quality, except those specifically provided with allowance for impairment at the end of the reporting periods.

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

*(a) Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements. These are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

*(b) Trade and Other Receivables*

In respect of trade and other receivables, the Group has neither any significant exposure to any individual customer or counterparty nor does it have any other concentration of credit risk arising from counterparties in similar business activities, geographic region or economic parties. The Group classifies tuition and other fee receivables from students based on the number of semesters the receivables have been outstanding. Receivables from students that are outstanding for more than one semester are analyzed to determine whether they are impaired. Those that are not outstanding for more than one semester or are currently receivable are determined to be collectible, based on historical experience.

*(c) AFS Financial Assets and HTM Investments*

AFS financial assets and HTM investments are coursed through reputable financial institutions duly approved by the BOT of the University and BOD of the subsidiaries.

### *4.3 Liquidity Risk*

The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and ensures that future cash collections are sufficient to meet them in accordance with internal policies. The Group invests in cash placements when excess cash is obtained from operations.

## 5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### *5.1 Carrying Amounts and Fair Values by Category*

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the interim consolidated statements of financial position are shown as follows.

| | **August 31, 2017 (Unaudited)** | | May 31, 2017 (Audited) | |
|---|---|---|---|---|
| | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial assets*** | | | | |
| AFS financial assets: | | | | |
| Debt and equity securities | **P 2,344,954,829** | **P 2,344,954,829** | P 2,278,646,580 | P 2,278,646,580 |
| HTM investments – | | | | |
| Debt securities | **308,702,334** | **307,856,218** | 336,566,334 | 343,972,540 |
| Other non-current asset – | | | | |
| Investment in golf club shares | **1,880,594** | **1,880,594** | 1,880,594 | 1,880,594 |
| | **P 2,655,537,757** | **P 2,654,691,641** | P 2,617,093,508 | P 2,624,499,714 |
| ***Financial liabilities*** | | | | |
| Derivative liability – | | | | |
| Cross-currency swaps | **P 33,365,459** | **P 33,365,459** | P 33,365,459 | P 33,365,459 |

Except for the financial assets and financial liability presented, the Group has no other financial assets and/or financial liabilities that are carried at fair value or that are not carried as fair value but are required to be disclosed at fair value (see Note 6.3). Management determined that the carrying amounts of these other financial instruments are equal to or approximate their fair values; hence, no further comparison between the carrying amounts and fair values is presented.

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4.

### *5.2 Offsetting of Financial Assets and Financial Liabilities*

All financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD/BOT and stockholders. As such, the Group's outstanding receivables from and payables to the same related parties can be potentially offset to the extent of their corresponding outstanding balances.

## 6. FAIR VALUE MEASUREMENT AND DISCLOSURES

### *6.1 Fair Value Hierarchy*

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurable date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### *6.2 Financial Instruments Measurement at Fair Value*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the consolidated statements of financial position on a recurring basis as of August 31 and May 31, 2017.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **August 31 (Unaudited)** | | | | |
| AFS financial assets – | | | | |
| Debt and equity securities | P2,024,589,754 | P 320,365,075 | P - | P 2,344,954,829 |
| Other non-current asset – | | | | |
| Investment in | | | | |
| golf club shares | - | 1,880,594 | - | 1,880,594 |
| | **P2,024,589,754** | **P 322,245,669** | **P -** | **P 2,346,835,423** |
| Derivative liability – | | | | |
| Cross currency swaps | **P -** | **(P 33,365,459)** | **P -** | **(P 33,365,459)** |
| May 31 (Audited) | | | | |
| AFS financial assets – | | | | |
| Debt and equity securities | P1,963,183,720 | P 315,462,860 | P - | P 2,278,646,580 |
| Other non-current asset – | | | | |
| Investment in | | | | |
| golf club shares | - | 1,880,594 | - | 1,880,594 |
| | P1,963,183,720 | P 317,343,454 | P - | P 2,280,527,174 |
| Derivative liability – | | | | |
| Cross currency swaps | P - | (P 33,365,459) | P - | (P 33,365,459) |

There were neither transfers between levels nor changes in levels of classification of instruments in all the years presented.

Described in the succeeding page is the information about how the fair values of the Group's classes of financial assets and financial liabilities are determined.

*a) Equity securities*

As of August 31, and May 31, 2017, instruments included in Level 1 comprise of corporate shares and UITF which are classified as AFS financial assets. The corporate shares were valued based on their market prices quoted in the PSE at the end of each reporting period. On the other hand, certain underlying assets of the UITF are in equity securities. Thus, UITF is included in Level 2 and valued based on the Net Asset Value per unit (NAVPU) of the fund, as computed by the banks. NAVPU is computed by dividing the total fair value of the fund by the total number of units at the end of each reporting period.

Golf club shares, which are presented as part of the Other Non-current Assets account in the consolidated statements of financial position, are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

*b) Debt securities*

The fair value of the Group's debt securities which consist of government and corporate bonds is estimated by reference to quoted bid price in active market at the end of the reporting period and is categorized within Level 1.

*c) Derivatives*

Derivatives classified as financial assets at FVTPL are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

### *6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

As of August 31 and May 31, 2017, the fair value of debt securities categorized as HTM investments amounted to P307.9 million and P344.0 million, respectively, which is Level 1 in the hierarchy of fair values (see Note 5.1).

Management considers that due to the short duration of the Group's financial assets and financial liabilities measured at amortized costs, as described in Notes 2.5 and 2.10, their fair values as at August 31 and May 31, 2017 approximate or equal their carrying amounts. Accordingly, the Group no longer presented their classification in their hierarchy.

### *6.4 Fair Value Measurement for Non-financial Assets*

*a) Determining Fair Value of Investment Properties*

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of August 31, 2017.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Land | P - | P 306,761,920 | P - | P 306,761,920 |
| Building and improvements | - | - | 635,261,677 | 635,261,677 |
| | **P -** | **P 306,761,920** | **P 635,261,677** | **P 947.91,597** |

The fair value of the Group's investment property, except for certain investment property owned by FRC which were determined using the discounted cash flows technique since information on appraisal reports is not readily available, are determined on the basis of the appraisals performed by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

The fair value of FRC's investment property without appraisal report was determined by calculating the present value of the cash inflows anticipated until the end of the useful life of the asset using a discount rate based on FRC's average borrowing rate from local banks as of August 31, 2017.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The fair values of these non-financial assets were determined based on the following approaches:

*(i)* *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

The Level 3 fair value of land was determined using the income approach which is performed with values derived using a discounted cash flow model. The income approach uses future free cash flow projections and discounts them to arrive at a present value. The discount rate is based on the level of risk of the business opportunity and costs of capital. The most significant inputs into this valuation approach are the estimated annual cash inflow and outgoing expenses.

*(ii) Fair Value Measurement for Building and Improvements*

The Level 3 fair value of the buildings and improvements included under the Investment Properties account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

*b) Other Fair Value Information*

There were no transfers into or out of Level 3 fair value hierarchy during the period.

## 7. SEGMENT INFORMATION

### *7.1 Business Segments*

The Group is organized into different business units based on its services or line of business for purposes of management assessment of each unit. In identifying its operating segments, management generally follow the Group's three major lines of business namely education, real estate and investment activities. These are the basis of the Group in reporting to its strategic steering committee for its strategic decision-making activities.

Also, the Group reports geographical segments in which campuses of FEU campuses are located.

### *7.2 Segment Assets and Liabilities*

Segment assets include all operating assets used by a segment and consist primarily of operating cash and cash equivalents, trade and other receivables, AFS financial assets, HTM investments, real estate held-for-sale, investment property, and property and equipment.

Segment assets do not include investments in an associate, deferred taxes and other assets which are not allocated to any segment's assets.

Segment liabilities include all operating liabilities as presented in the consolidated statements of financial position, except for deferred tax liabilities.

### *7.3 Intersegment Transactions*

Segment revenues, expenses and performance include revenues and purchases between business segments and between geographical segments. Such services and purchases are eliminated in consolidation.

## *7.4 Analysis of Segment Information*

Segment information can be analyzed by business line as follows for the three months ended August 31, 2017 and 2016 (both periods unaudited and amounts in thousands):

| | Education | | Real Estate – Rental Income | | Real Estate – Sale of Properties | | Investments | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **REVENUES** | | | | | | | | | | |
| From external customers | **P 336,912** | P 374,256 | **P 8,422** | P 8,785 | **P -** | P - | **P 40,856** | P 29,938 | **P 416,190** | P 412,979 |
| Intersegment revenues | **-** | - | **27,738** | 28,998 | **-** | - | **-** | - | **27,738** | 28,998 |
| Total revenues | **336,912** | 374,256 | **36,160** | 37,783 | **-** | - | **40,856** | 29,938 | **443,928** | 441,977 |
| **COSTS AND OTHER OPERATING EXPENSES** | | | | | | | | | | |
| Cost of sales and services excluding depreciation | **232,026** | 196,141 | **4,994** | 4,713 | **-** | - | **-** | - | **237,020** | 200,854 |
| Depreciation | **61,820** | 57,703 | **7,762** | 7,352 | **-** | - | **-** | - | **69,582** | 65,055 |
| Other expenses | **111,126** | 91,714 | **-** | - | **-** | - | **-** | - | **111,126** | 91,714 |
| | **404,972** | 345,558 | **12,756** | 12,065 | **-** | - | **-** | - | **417,728** | 357,623 |
| **SEGMENT OPERATING INCOME (LOSS)** | **(P 38,060)** | P 28,698 | **P 23,404** | P 25,718 | **P -** | P - | **P 40,856** | P 29,938 | **P 26,200** | P 84,354 |

The following presents the segment assets and liabilities of the Group as of August 31 (unaudited) and May 31 (audited), 2017 (amounts in thousands):

| | Education | | Real Estate – Rental Income | | Real Estate – Sale of Properties | | Investments | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **August 31** | May 31 | **August 31** | May 31 | **August 31** | May 31 | **August 31** | May 31 | **August 31** | May 31 |
| **TOTAL ASSETS AND LIABILITIES** | | | | | | | | | | |
| Segment assets | **P 7,824,341** | P 6,813,718 | **P 2,138,637** | P 2,092,755 | **P 237,884** | P 238,162 | **P 4,492,013** | P 4,131,904 | **P 14,692,875** | P 13,276,539 |
| Segment liabilities | **4,623,018** | 3,439,476 | **7,945** | 12,071 | **-** | - | **34,574** | 51,126 | **4,665,537** | 3,502,673 |

The Group's geographical segment for the three months ended August 31, 2017 and 2016, and as of August 31 and May 31, 2017 follows (amounts in thousands).

| | Manila | Makati | Cavite | Quezon City, Marikina City and Rizal | Total |
|---|---|---|---|---|---|
| **August 31, 2017 (Unaudited)** | | | | | |
| Segment revenues | | | | | |
| From external customers | P 333,505 | P 13,785 | P 10,123 | P 58,777 | P 416,190 |
| Intersegment revenues | 26,941 | 797 | - | - | 27,738 |
| Total revenues | 360,446 | 14,582 | 10,123 | 58,777 | 443,928 |
| Operating expenses | ( 343,023) | ( 4,757) | ( 13,846) | ( 56,102) | ( 417,728) |
| **Segment operating profit (loss)** | **P 17,423** | **P 9,825** | **(P 3,723)** | **P 2,675** | **P 26,200** |
| **Total Segment Assets** | **P 13,142,933** | **P 98,676** | **P 172,657** | **P 1,278,609** | **P 14,692,875** |
| **Total Segment Liabilities** | **P 4,094,841** | **P 64,988** | **P 65,298** | **P 440,410** | **P 4,665,537** |
| August 31, 2016 (Unaudited) | | | | | |
| Segment revenues | | | | | |
| From external customers | P 335,964 | P 15,872 | P 9,628 | P 51,515 | P 412,979 |
| Intersegment revenues | 26,720 | 2,278 | - | - | 28,998 |
| Total revenues | 362,684 | 18,150 | 9,628 | 51,515 | 441,977 |
| Operating expenses | ( 306,789) | ( 3,014) | ( 11,431) | ( 36,389) | ( 357,623) |
| Segment operating profit (loss) | P 55,895 | P 15,136 | (P 1,803) | P 15,126 | P 84,354 |
| May 31, 2017 (Audited) | | | | | |
| Total Segment Assets | P 11,873,823 | P 98,374 | P 130,063 | P 1,174,279 | P 13,276,539 |
| Total Segment Liabilities | P 2,911,840 | P 65,664 | P 21,574 | P 503,595 | P 3,502,673 |

## *7.5 Reconciliation*

Presented below and in the succeeding page is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements (in thousands) for the three months ended August 31, 2017 and 2016 and as of August 31 and May 31, 2017.

| | **2017 (Unaudited)** | 2016 (Unaudited) |
|---|---|---|
| **Revenues** | | |
| Total segment revenues | **P 443,928** | P 441,977 |
| Finance income | **( 40,856)** | ( 29,938) |
| Elimination of intersegment revenues | **( 27,738)** | ( 28,998) |
| Revenues as reported in interim consolidated statements of profit or loss | **P 375,334** | P 383,041 |

| | **2017 (Unaudited)** | 2016 (Unaudited) |
|---|---|---|
| **Profit or loss** | | |
| Segment operating profit | **P 26,200** | P 84,354 |
| Miscellaneous income – net | **19,720** | 7,920 |
| Finance costs | **( 15,708)** | ( 4,213) |
| Other unallocated expenses | **( 34,617)** | ( 28,735) |
| Tax expense | **( 16,231)** | ( 14,553) |
| Profit (loss) as reported in interim consolidated statements of profit or loss | **(P 20,636)** | P 45,137 |

| | **August 31 (Unaudited)** | May 31 (Audited) |
|---|---|---|
| **Assets** | | |
| Segment assets | **P 14,692,875** | P 13,276,539 |
| Goodwill | **186,487** | 186,487 |
| Deferred tax assets | **20,272** | 20,272 |
| Investment in an associate | **6,586** | 6,586 |
| Elimination of intercompany accounts | **( 1,754,889)** | ( 1,533,736) |
| Total assets reported in interim consolidated statements of financial position | **P 13,151,331** | P 11,956,148 |
| **Liabilities** | | |
| Segment liabilities | **P 4,665,537** | P 3,502,673 |
| Deferred tax liabilities | **10,697** | 10,697 |
| Elimination of intercompany accounts | **( 337,044)** | ( 379,847) |
| Total liabilities reported in interim consolidated statements of financial position | **P 4,339,190** | P 3,133,523 |

## 8. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment as of August 31 and May 31, 2017 are shown below.

| | **August 31 (Unaudited)** | May 31 (Audited) |
|---|---|---|
| Cost | **P 7,651,244,684** | P 7,121,184,022 |
| Accumulated depreciation and amortization | **( 1,898,561,179)** | ( 1,446,084,278) |
| Net carrying amount | **P 5,752,683,505** | P 5,675,099,744 |

A reconciliation of the carrying amounts of property and equipment at the beginning and end of three months ended August 31, 2017 and year ended May 31, 2017 are shown below.

| | August 31 (Unaudited) | May 31 (Audited) |
|---|---|---|
| Balance at beginning of period net of accumulated depreciation and amortization | **P 5,675,099,744** | P 5,710,321,560 |
| Additions | **139,403,782** | 571,978,810 |
| Disposals | **-** | ( 49,001) |
| Reclassifications – net | **-** | ( 333,125,676) |
| Depreciation and amortization charges for the period | **( 61,820,021)** | ( 274,025,949) |
| Balance at end of period net of accumulated depreciation and amortization | **P 5,752,683,505** | P 5,675,099,744 |

Property and equipment includes construction in progress which pertain to the costs incurred for the on-going construction of the school building of FEUAI.

## 9. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land, buildings and improvements and buildings under construction which are held for investment purposes only, either to earn rental income or for capital appreciation or both. The gross carrying amounts and accumulated depreciation and amortization of investment property as of August 31 and May 31, 2017 are shown below.

| | August 31 (Unaudited) | May 31 (Audited) |
|---|---|---|
| Cost | **P 749,303,392** | P 845,826,224 |
| Accumulated depreciation and amortization | **( 182,419,025)** | ( 278,780,362) |
| Net carrying amount | **P 566,884,367** | P 567,045,862 |

A reconciliation of the carrying amounts of investment property at the beginning and end of three months ended August 31, 2017 and year ended May 31, 2017 is shown below.

| | **August 31 (Unaudited)** | May 31 (Audited) |
|---|---|---|
| Balance at beginning of period net of accumulated depreciation and amortization | **P 567,045,862** | P 203,682,720 |
| Additions | **7,601,215** | 26,564,345 |
| Reclassifications – net | **-** | 364,882,110 |
| Depreciation and amortization charges for the period | **( 7,762,710)** | ( 28,083,313) |
| Balance at end of period net of accumulated depreciation and amortization | **P 566,884,367** | P 567,045,862 |

Information about the fair value measurement and disclosures related to investment properties are presented in Note 6.4.

There was no disposal of investment property during the three months ended August 31, 2017 and the year ended May 31, 2017.

## 10. INTEREST-BEARING LOANS

The composition of the Group's outstanding loans are shown below:

| | **August 31 (Unaudited)** | May 31 (Audited) |
|---|---|---|
| Current | **P 578,095,238** | P 332,857,143 |
| Non-current | **1,630,000,000** | 1,617,142,857 |
| | **P 2,208,095,238** | P 1,950,000,000 |

The outstanding principal balance and other relevant details of the Group's outstanding loans, including explanatory notes are as follows:

| **Outstanding Principal Balance (in Million Pesos)** | | **Explanatory Notes** | **Interest Rate** | **Security** | **Maturity date** |
|---|---|---|---|---|---|
| **August 31 (Unaudited)** | May 31 (Audited) | | | | |
| **P 800.0** | P 800.0 | (a) | Base interest* plus | Unsecured | 2023 |
| **647.6** | 680.0 | (b) | 0.75% or prevailing | Unsecured | 2022 |
| **190.5** | 200.0 | (c) | rate on special | Unsecured | 2022 |
| **150.0** | 150.0 | (d) | deposit account | Unsecured | 2023 |
| **70.0** | 70.0 | (e) | 3.5% per annum | Unsecured | 2018 |
| **50.0** | 50.0 | (f) | Based interest* plus 0.75% or prevailing rate on special deposit account | Unsecured | 2018 |
| **200.0** | - | (g) | 3.5% per annum re-priced monthly | Unsecured | 2018 |
| **100.0** | - | (h) | 3.7% (all in) per annum | Unsecured | 2022 |
| **P 2,208.1** | P 1,950.0 | | | | |

** Base interest rate is determined from the Philippine Dealing System Treasury Reference three-month bid yields for Philippine government securities.*

(a) In May 2016, the University obtained a P800.0 million interest-bearing loan from a local commercial bank which was used for the University's general capital expenditure requirements, including funding of acquisition of a business and general corporate funding requirements. Principal amount is payable over 21 quarterly payments to start after a two-year grace period from loan availment date. The loan does not have any significant or restrictive covenants. Initial interest payment was made in August 2016.

(b) In June 2015, the University availed of a credit line facility with another local commercial bank amounting to P1.0 billion intended to be used to finance the construction of a campus, including acquisition of land. The University's initial loan drawdown amounted to P680.0 million and is payable within seven years. Initial repayment of principal was made in June 2017. The loan does not have any significant or restrictive covenants.

(c) In April 2017, the University made another drawdown of P200.0 million interest-bearing loan from its credit line facility from a local commercial bank for capital expenditure requirements, including the funding of acquisition of a business and general corporate funding requirements. The principal amount is payable over 21 quarterly payments. The first principal repayment was made on June 2017, together with the initial interest payment. The loan does not have any significant or restrictive covenants.

(d) In November 2016, the University obtained a P150.0 million interest-bearing loan from a local commercial bank for general capital expenditure requirements, including funding of acquisition of a business and general corporate funding requirements. The principal amount is payable over 21 quarterly payments starting May 2018. Initial interest payments were made in February and May 2017. The loan does not have any significant or restrictive covenants.

(e) In April 2017, RCI signed a promissory note with a local commercial bank in which RCI availed a P70.0 million unsecured term loan due on January 29, 2018 with an interest rate of 3.5% per annum. This loan was availed as a drawdown from FEU's existing credit line.

(f) In May 2017, the University obtained a P50.0 million interest-bearing loan from a local commercial bank for general capital expenditure requirements, including funding of acquisition of a business and general corporate funding requirements. The principal amount is payable upon maturity in January 2018. The loan is unsecured and does not have any significant nor restrictive covenants.

(g) In August 2017, the University obtained a P200.0 million interest-bearing loan from a local commercial bank for general capital expenditure requirements. The principal amount is payable upon maturity in January 2018. The loan is unsecured and does not have any significant nor restrictive covenants.

(h) In June 2017, the University obtained a P100.0 million interest-bearing loan from a local commercial bank. The loan is payable within five years, with the first principal payment due on September 2017. The loan is unsecured and does not have any significant or restrictive covenants.

## 11. EQUITY

### *11.1 Capital Stock*

As of August 31 and May 31, 2017, the University has 20,000,000 shares of authorized capital stock, of which 16,431,159 were issued and outstanding, with par value of P100 per share.

The University's treasury stock, totalling to 37,331 shares and which were acquired in prior years, amounted to P3.7 million, as of August 31 and May 31, 2017.

On July 11, 1986, the SEC approved the listing of the University's common shares, its only listed securities, at an offer price of P100 per share. As of August 31 and May 31, 2017, there are 16,514,354 listed shares which include those held in treasury and shares held by the University's related parties. As of August 31 and May 31, 2017, the University has a total of 10,788,170 listed shares, which is equivalent to 65.66%, held by related parties, while there are 5,642,989 listed shares owned by the public, which is equivalent to 34.34% of the total outstanding shares, as of the same periods.

As of August 31 and May 31, 2017, the closing price of the University's listed shares was P970 per share.

### *11.2 Treasury Stock*

This account also includes the University's common shares held and acquired by FRC in various dates during the year ended March 31, 2015 until the current period ended August 31, 2017. The changes in market values of these shares, recognized as fair value gains or losses by FRC, were eliminated in full and not recognized in the consolidated financial statements. Accordingly, the Group's treasury stocks amounted to P49.4 million as of August 31 and May 31, 2017, which consist of 83,195 shares.

A portion of the University's retained earnings is restricted for dividend declaration up to the cost of treasury stocks, excluding the amount acquired and held by FRC as this is considered as a cross-holding as of the end of the reporting period.

### *11.3 Retained Earnings*

Retained earnings is legally restricted at an amount equivalent to the cost of the University's treasury shares of P3.7 million.

As of August 31 and May 31, 2017, the University's Appropriated Retained Earnings consists of appropriations for:

| | **August 31 (Unaudited)** | May 31 (Audited) |
|---|---|---|
| Property and investment acquisition | **P 2,000,000,000** | P 2,250,000,000 |
| Expansion and improvement of facilities | **324,800,000** | 187,000,000 |
| Purchase of equipment and furniture | **135,200,000** | 33,000,000 |
| General retirement | **140,000,000** | 90,000,000 |
| Contingencies | **240,000,000** | 10,000,000 |
| Treasury shares | **3,733,100** | 3,733,100 |
| | **P 2,843,733,100** | P 2,573,733,100 |

The changes in the appropriated retained earnings are shown below.

| | **August 31 (Unaudited)** | May 31 (Audited) |
|---|---|---|
| Balance at beginning of period | **P 2,573,733,100** | P 2,573,733,100 |
| Appropriations during the period | **520,000,000** | - |
| Reversal of appropriations | **( 250,000,000)** | - |
| Net carrying amount | **P 2,843,733,100** | P 2,573,733,100 |

The breakdown of appropriations made during the three months ended August 31, 2017 (Unaudited), which are expected to be utilized within one year from the end of current fiscal year, is shown below:

| | | |
|---|---|---|
| Contingencies | P | 230,000,000 |
| Expansion and improvement of facilities | | 137,800,000 |
| Purchase of equipment and furniture | | 102,200,000 |
| General retirement | | 50,000,000 |
| | **P** | **520,000,000** |

During the current period, the University reversed the appropriation for property and investment acquisition, amounting to P250.0 million, as the purpose for which such appropriations were made had been completed.

## 12. EARNINGS (LOSS) PER SHARE

Earnings or loss per share amounts for the three months ended August 31, 2017 and 2016 were computed as follows:

| | **2017 (Unaudited)** | 2016 (Unaudited) |
|---|---|---|
| Net profit (loss) attributable to owners of the parent company | **(P 28,351,864)** | P 31,291,903 |
| Divided by weighted average number of shares outstanding, net of treasury stock | **16,431,159** | 16,439,038 |
| Basic and diluted earnings (loss) per share | **(P 1.73)** | P 1.90 |

## 13. COMMITMENTS AND CONTINGENCIES

There are contingencies that arise in the normal course of operations of the Group which are not reflected in the accompanying ICFS. Moreover, there are recognized provisions that arise in the normal course of certain subsidiary's operations. Management believes that losses, if any, arising from this provisions, commitments and contingencies will not materially affect the ICFS, however, the Group opted to generally appropriate portion of its retained earnings to cover for such contingencies (see Note 11.3).

In addition, there are no material off-balance sheet transactions, arrangements, obligations and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

## 14. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group aims to provide returns on equity to shareholders while managing operational and strategic objectives. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or obtain debt financing.

The Group defines capital as paid-in capital stock and retained earnings, both appropriated and unappropriated. Other components of equity such as treasury stock and revaluation reserves are excluded from capital for purposes of capital management. The BOT has overall responsibility for monitoring of capital in proportion to risks. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The University monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Capital for the reporting period August 31 and May 31, 2017, under review is summarized as follows:

| | **August 31 (Unaudited)** | May 31 (Audited) |
|---|---|---|
| Total liabilities | **P 4,339,189,646** | P 3,133,522,708 |
| Total equity attributable to owners of the parent company (excluding treasury shares and reserves) | **6,751,206,863** | 6,779,558,727 |
| Debt-to-equity ratio | **0.64 : 1.00** | 0.46 : 1.00 |

There was no significant change in the Group's approach to capital management during the year.

## 15. SEASONAL FLUCTUATIONS

Tuition fee revenue is subject to seasonal fluctuations. Revenue from such source started to be earned only in August, based on a new academic calendar. Accordingly, tuition revenue for the three months ended August 31, 2017 represents only 13.03% of the annual tuition revenue for the fiscal year ended May 31, 2017.

## 16. SUBSEQUENT EVENTS

On September 13, 2017, FRC acquired an additional 5,000 shares of stock of FEU. As a result of the said acquisition, FEU shares held by FRC as of the said date have increased to 50,996 shares.

On September 19, 2017, the University's BOT approved the declaration of cash dividends of P8.0 per share, or a total amount of P131.82 million, to all stockholders on record as of October 4, 2017. The payment date of the cash dividends is on October 18, 2017.