COVER SHEET

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

COMPANY NAME

LT GROUP, INC.

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

11th Fl., Unit 3 Bench Tower,
30th St. corner Rizal Drive
Crescent Park West 5 BonifaciO
Global CIty, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	SEC	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@ltg.com.ph	808-1266	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
375	May 6	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jose Gabriel D. Olives	josegabriel.olives@ltg.com.ph	N/A	N/A

CONTACT PERSON's ADDRESS

11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City

NOTE 1: *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2: *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES

1. For the calendar year ended **December 31, 2019**

2. SEC Identification Number **PW-343**

3. BIR Tax Identification No. **121-145-650-000**

4. Exact name of registrant as specified in its charter **LT Group, Inc.**

5. **Philippines**
   Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
   Industry Classification Code:

7. **11th Floor Unit 3 Bench Tower, 30th St. corner Rizal drive Crescent Park West 5 Bonifacio Global City Taguig City** **1634**
   Address of principal office — Postal Code

8. **(632) 8808-1266**
   Registrant's telephone number, including area code

9. **N/A**
   Former name, former address, and former fiscal year, if changed since last report.

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common shares, P1.00 par value	**10,821,388,889**

11. Are any or all of these securities listed on a Stock Exchange?

    Yes [✓] No [ ]

Philippine Stock Exchange Common Stock - 10,821,388,889 shares

12. Check whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [✓] No [ ]

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

Yes [✓] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant ₱33,243,391,802 as of December 31, 2019.

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the commission.

Yes [ ] No [✓]

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders; **Not applicable**

(b) Any information statement filed pursuant to SRC Rule 20; **Not applicable**

(c) Any prospectus filed pursuant to SRC Rule 8.1. **Not applicable**

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

LT Group, Inc. ("LTG" or the "Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 25, 1937 under the name "The Manila Wine Merchants, Inc. to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. On September 22, 1995, the Philippine SEC approved the change in Company's name to "Asian Pacific Equity Corporation" and the change in its primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation ("Tangent" or the "Parent Company"). The share swap resulted in LTG wholly owning TDI and Tangent increasing its ownership in LTG to 97.0%. On November 10, 1999, the Philippine SEC approved the change in the Company's corporate name from "Asian Pacific Equity Corporation" to "Tanduay Holdings, Inc". On September 24, 2012, LTG's stockholders approved the amendment in its Articles of Incorporation and By-Laws to reflect the change in its corporate name from "Tanduay Holdings, Inc." to "LT Group, Inc." which was approved by the Philippine SEC on September 28, 2012. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

After a series of restructuring activities in 2012 and 2013, LTG has expanded and diversified its investments to include the beverages, tobacco, property development and banking businesses, all belonging to Mr. Lucio C. Tan and his family and assignees (collectively referred to as the "Controlling Shareholders"). These business segments in which LTG and subsidiaries (collectively referred to as "the Group") operate are described in Note 4 to the consolidated financial statements.

As of December 31, 2019 and 2018, LTG was 74.36%-owned by its ultimate parent company, Tangent, which was also incorporated in the Philippines.

The official business address of the head office is at 11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City.

The Company has interests in the following businesses:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 28.8% share of the Philippine spirits market in 2019.

- **Beverages**— the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Incorporated (ABI). ABI is one of the Philippines' leading beverage manufacturers, producing energy drinks, bottled water, and soymilk. The company conducts its alcoholic beverage business through its 50% stake in AB Heineken Philippines Inc. (ABHP).

- **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with an estimated 70.5% market share in the year 2019.

- **Banking**—the Company conducts its banking business through Philippine National Bank (PNB). PNB is a universal bank currently listed in the Philippine Stock Exchange (PSE). The Company's indirect ownership in PNB is approximately 56.47%. PNB is the Philippines' fourth largest private commercial bank in terms of total assets.

- **Property Development**— the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc., with an effective indirect ownership of 99.6% in Eton Properties Philippines, Inc. (Eton). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Lucio Tan Companies. Eton's project portfolio mainly comprises residential real estate projects (including large-scale township projects. Eton also develops and leases out commercial properties to retail and BPO tenants.

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

TDI was incorporated in the Philippines on May 10, 1988 and is primarily engaged in, operates, conducts, and maintains the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail, such finished goods as rhum, brandy, whiskey, gin and other liquor products, and any and all equipment, materials, supplies used and/or employed in or related to the manufacture of such finished goods.

The following companies are majority owned by TDI:

- **Asian Alcohol Corporation (AAC) – 95%**
  AAC is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 1973. The company is primarily involved in the manufacture of refined and/or denatured alcohol and in the production of fodder yeast, and to market, sell, distribute, and generally deal in any or all of such liquids or products.

- **Absolut Distillers, Inc. (ADI) – 96%**
  ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including but not limited to alcohol, molasses, bioethanol, biogas and biomass for renewable energy at wholesale and retail and to engage in the business of generating, transmitting and or distributing renewable energy derived from solar power for lighting and power purposes.

- **Tanduay Brands International, Inc. (TBI) – 100%**
  On May 6, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI's products. On December 20, 2016, LTG sold its 100% ownership interest in TBI to TDI. In October 2017, the Company started its commercial operations and opened its first store "Tanduay" in Century Park Hotel in Manila.

Beverage

Asia Brewery, Incorporated (ABI)

ABI. was incorporated in the Philippines on March 28, 1979. The company is primarily engaged in the business of manufacturing, selling, importing, exporting and assembly of all kinds of products, supplies, dies, tools, appliances, plants and machineries.

The following companies are 100%-owned by ABI:

- **Agua Vida Systems, Inc. (AVSI)**
  AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.

- **Waterich Resources Corp. (WRC)**
  WRC was incorporated in the Philippines on September 25, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.

- **Packageworld, Inc. (PWI)**
  PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the manufacturing of corrugated cartons and trade the same on a wholesale basis.

- **Interbev Philippines, Inc. (IPI)**
  IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra* and *energy drinks.*

- **AB Nutribev Corp. (ABNC)**
  ABNC was incorporated in the Philippines on April 22, 2014. Its primary business is the manufacturing and trading of dairy and soy milk-based beverages.

- **Asia Pacific Beverages Pte. Ltd. (APBPL)**
  APBPL was incorporated on August 21, 2014 under the laws of Singapore. It was established as an investment holding company for business opportunities in the region. ABPBL acquired 90% of Asia Pacific Beverages Myanmar Co. Ltd. (APBM) in April 2017. APBM is a company incorporated in the Republic of the Union of Myanmar. APBM's primary purpose is to manufacture, market, sell and distribute non-alcoholic ready-to-drink beverage products in Myanmar.

In February 2012, ABI, in partnership with Corporacion Empresarial Pascual S. L. of Spain, also formed ABI Pascual Holdings Pte. Ltd., a jointly controlled entity organized and domiciled in Singapore. In November of that year, the joint venture established ABI Pascual Foods Incorporated (APFI), an operating company in the Philippines engaged in the marketing and distribution of yogurt products in the country.

In May 2016, ABI and Heineken International B.V. (HIBV) of the Netherlands partnered to form AB Heineken Philippines Inc., a jointly controlled corporation in the business of manufacturing, purchasing, importing, exporting, selling and distribution, of alcoholic beverages, non-alcoholic beer, malt-based beverages and related products of the aforementioned beverages. In November 2016, ABI transferred its alcoholic beverage business to ABHP when it commenced commercial operations. Brands controlled by ABHP include ABI-developed brands, Beer na Beer, Colt 45 and Brew Kettle, and HIBV's Heineken and Tiger.

Tobacco

Fortune Tobacco Corporation (FTC)

FTC was incorporated in the Philippines on April 29, 1965. The Company was organized primarily to engage in cigarette manufacturing, selling, importing and exporting. FTC was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the *Fortune*, *Champion* and *Hope* menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco business in the Philippines.

FTC currently has an effective 49.6% stake in PMFTC, the business combination between the Philippine operations of Philip Morris International and the operations of FTC. The brands currently produced by PMFTC include the FTC brands and Philip Morris' Marlboro.

Banking

Philippine National Bank (PNB)

PNB was incorporated in the Philippines on July 22, 1916. PNB is the country's first universal bank and the fourth largest private local commercial bank in terms of assets as of December 31, 2019. PNB has celebrated its Centennial Year of serving the Filipino people in July 2016. For 100 years, PNB stands proud as an institution of stability and security for many Filipinos. With its century of banking history and experience, PNB is poised to move forward to becoming a more dynamic, innovative and service-focused bank, providing service excellence to Filipinos all over the world. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed on February 9, 2013.

The following companies are owned by PNB:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership	
				Direct	Indirect
Subsidiaries					
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	100.00	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	100.00	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	100.00	–
PNB General Insurers Inc. (PNB Gen)	Insurance	- do -	Php	65.75	34.25
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	100.00	–
PNB Corporation – Guam	Remittance	USA	USD	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) [a]	Remittance	- do -	USD	–	100.00
PNB Remittance Co. (Nevada) [b]	Remittance	-do-	USD	–	100.00
PNB RCI Holding Co. Ltd. [b]	Holding Company	- do -	USD	–	100.00
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	100.00	–
PNB Europe PLC	Banking	- do -	GBP	100.00	–
PNB Remittance Co. (Canada) [c]	Remittance	Canada	CAD	–	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	100.00	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	USD	99.04	–
PNB-IBJL Leasing and Finance Corporation (PILFC)	Leasing/Financing	Philippines	Php	75.00	–
PNB-IBJL Equipment Rentals Corporation	Rental	- do -	Php	–	75.00
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	57.21	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)*	Banking	Hong Kong	HKD	51.00	–
ACR Nominees Limited *	Banking	- do -	HKD	–	51.00
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	27.78	–
Associate					
Allianz-PNB Life Insurance, Inc. (APLII)	Insurance	- do -	Php	44.00	–

** Subsidiaries acquired as a result of the merger with ABC*

[a] *Owned through PNB IIC*

[b] *Owned through PNB RCI*

[c] *Owned through PNB RCI Holding Co. Ltd.*

Bank Holding Companies
On February 11, 2013, LTG's Board of Directors (BOD) approved the acquisition of indirect ownership in the merged PNB through the investment in the 27 holding companies which have collective ownership interest in PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition was effected by way of subscription to the increase in authorized capital shares of 22 Bank Holding Companies direct buy-out of shares of 5 Bank Holding Companies. As of December 31, 2019, LTG has majority ownership over the Bank Holding Companies which translates to an indirect 56.47% ownership of PNB.

The following are the 27 bank holding companies:

1. Allmark Holdings Corporation
2. Dunmore Development Corp.
3. Kenrock Holdings Corp.
4. Leadway Holdings, Inc.
5. Multiple Star Holdings Corporation
6. Pioneer Holdings Equities, Inc.
7. Donfar Management Ltd.
8. Fast Return Enterprises, Ltd.
9. Mavelstone International Ltd.
10. Uttermost Success, Ltd.
11. Ivory Holdings, Inc.
12. Merit Holdings & Equities Corporation
13. True Success Profits Ltd.
14. Key Landmark Investments Ltd.
15. Fragile Touch Investment, Ltd.
16. Caravan Holdings Corporation
17. Solar Holdings Corporation
18. All Seasons Realty Corporation
19. Dynaworld Holdings, Inc.
20. Fil-Care Holdings, Inc.
21. Kentwood Development Corporation
22. La Vida Development Corporation
23. Profound Holdings, Inc.
24. Purple Crystal Holdings, Inc.
25. Safeway Holdings Corporation
26. Society Holdings Corporation
27. Total Holdings Corporation

Property Development

Saturn Holdings, Inc. (Saturn)
Saturn Holdings, Inc. was incorporated in the Philippines on February 18, 1997. Saturn's primary purpose is to engage in the purchase, retention, possession or in any other manner to acquire legally constituted within or outside the Philippines and to issue shares of stocks, bonds, or other obligations for the payment of articles or properties acquired by the corporation or for other legal consideration, all to the extent permitted by law.

Paramount Landequities, Inc. (Paramount)
Paramount was incorporated in the Philippines on July 25, 1988. Its primary purpose is that of a real estate development company.

Eton Properties Philippines, Inc. (ETON)
Eton was incorporated and registered in the Philippines on April 2, 1971 under the name "Balabac Oil Exploration & Drilling Co., Inc." to engage in oil exploration and mineral development projects in the Philippines. It became a holding company on August 19, 1996 and included real estate development and oil exploration as its secondary purposes. However, on February 21, 2007, the Company changed its name to Eton Properties Philippines, Inc. with real estate development as its primary business.

The following companies are 100%-owned by ETON:

- **Belton Communities, Inc. (BCI)**
  BCI was incorporated and registered with the SEC on November 5, 2007 and is engaged to deal and engage in land or real estate business.

- **Eton City, Inc. (ECI)**
  ECI was incorporated and registered with the SEC on October 8, 2008 and is engaged to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

- **FirstHomes, Inc. (FHI)**
  On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly-owned subsidiary of Eton and is engaged in real estate development.

- **Eton Properties Management Corporation (EPMC)**
  EPMC was incorporated and registered with the SEC on November 25, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, houses, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has started its commercial operations in 2016.

Products

Distilled Spirits
Rum Products
1. Tanduay Five Years Fine Dark Rhum
2. Tanduay Rhum 65 Fine Dark Rhum ("Rhum 65")
3. Tanduay E.S.Q. Fine Dark Rhum ("E.S.Q.")
4. Tanduay White Premium Rhum
5. Tanduay Superior Dark Rhum
6. Tanduay Rhum Light
7. Boracay Rum
8. Tanduay Asian Rum Gold
9. Tanduay Asian Rum Silver
10. Tanduay 1854 Rhum
11. Tanduay Select
12. Tanduay CLX Rum
13. Tanduay Cane Spirit

Gin Products
1. London Gin
2. Gin Kapitan
3. Gin Kapitan Light

Brandy Products
1. Compañero Light Brandy

Vodka Products

1. Cossack Vodka Red
2. Cossack Vodka Blue
3. Mardi Gras Vodka Schnapps

Whiskey Products

1. Embassy Whiskey

Cocktails

1. Tanduay Cocktails

Medicinal Wine

1. Vino Agila

Bioethanol

The Company's distillery subsidiaries, ADI and AAC, are registered with the Sugar Regulatory Administration (SRA) as bioethanol producers with a registered capacity per year of 30 million liters each. Under RA 9367 of 2006, otherwise known as the Biofuels Law, all liquid fuels for motors and engines sold in the Philippines shall contain locally-source biofuels components. Effective 2010, the mandated blend of bioethanol by volume into all gasoline fuel distributed and sold by local oil companies is 10%.

ADI started commercial operation of its bioethanol plant in 2016. AACs bioethanol plant is still non-operational

Solar Power

ADI operates a 2-megawatt solar power generating facility, licensed under RA 9513, also known as the "Renewable Energy Act of 2008". The entire electric power generated by ADIs solar power system is sold to the National Grid Corporation of the Philippines (NGCP) at the approved Feed-In-Tariff rate of PhP8.69 per kilowatt-hour under a 25-year solar energy supply contract.

Other Products

The Company's distillery companies also manufacture and sell denatured alcohol, liquid carbon dioxide and dry ice which are the main by-products from the distillation process.

<u>Beverage</u>

Energy Drinks

1. Cobra

Drinking Water

1. Absolute Pure Distilled Drinking Water
2. Summit Natural Drinking Water
3. Summit Still
4. Summit Sparkling Water

Others

1. Vitamilk
2. Sunkist carbonated soft drinks
3. Nestea ready-to-drink iced tea
4. Barista's Best ready-to-drink Coffee

Commercial Glass

APFI product include:

1. Creamy Delight Yogurt
2. Bifrutas Fruit Juice and Milk Drink

APBM products sold in Myanmar include:

1. Sunkist carbonated soft drinks
2. Sunkist juice drink
3. Air Soda

ABHP products sold in the Philippine market include:

Beer

1. Heineken
2. Tiger Beer
3. Tiger Black
4. Tiger Crystal
5. Colt 45 Malt Liquor
6. Beer na Beer
7. Manila Beer Light
8. Asahi Super Dry
9. Brew Kettle

Alcopop

1. Tanduay Ice
2. Tanduay Ice Zero
3. Tanduay Ice Signature Vodka

Tobacco

FTC has no products in the market but its associate, PMFTC has the following cigarette products:

1. Marlboro
2. Fortune
3. Jackpot
4. More
5. Hope
6. Champion
7. Mark
8. Boss

Banking

PNB provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include the following:

1. Deposit taking
2. Lending
3. Trade financing
4. Foreign exchange dealings
5. Bills discounting
6. Fund transfers/remittance servicing
7. Asset management
8. Treasury operations
9. Comprehensive trust services
10. Retail banking
11. Other related financial services

<u>Property Development</u>

Completed Developments:

High-rise

1. Eton Baypark Manila
2. Eton Parkview Greenbelt
3. Eton Emerald Lofts
4. Eton Residences Greenbelt
5. One Archers Place
6. Belton Place
7. 8 Adriatico
8. Eton Tower Makati

Mid-rise

1. The Manors at North Belton Communities

Residential Subdivisions

1. South Lake Village at Eton City
2. Riverbend at Eton City
3. West Wing Residences at North Belton Communities
4. 68 Roces
5. Tiera Bela
6. Villagewalk
7. West Wing Residences at Eton City
8. West Wing Villas

Commercial

1. Centris Walk
2. Centris Walk Extension
3. Centris Steel Parking Buildings
4. Centris Station
5. Green Podium
6. Eton Square Ortigas

BPO Office

1. Cyberpod Centris One
2. Cyberpod Centris Two
3. Cyberpod Centris Three
4. Cyberpod Centris Five
5. Eton Cyberpod Corinthian

Events Venue

1. Elements at Centris

Serviced Residences

1. Mini Suites at Eton Tower Makati

Ongoing Developments:

Commercial

1. WestEnd Square
2. NXTower I
3. Eton Bay Square

Distribution method of the products

Distilled Spirits

Liquor Products
As of December 31, 2019, TDI serves more than 215,000 points of sale throughout the Philippines through ten (10) exclusive distributors, who in turn may work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. TDI's distributors operated 48 sales offices and 84 warehouses located throughout the Philippines. TDI through TBI employs in-house sales staffs who provide marketing and general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Bioethanol and distillery by-products
These are either delivered by distillery tankers to the customers or picked-up by the customers at the distillery plants.

Beverage
ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. ABI's exclusive distributors have a network of 44 sales offices, 28 warehouses and 29 depots**.** This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

Tobacco
PMFTC distributes through wholesalers and retailers directly to approximately 131,000 points of sale throughout the Philippines. PMFTC segments its distribution into two separate channels:

(i) key accounts—including hypermarkets and supermarkets, tobacconists, convenience stores and gasoline stations; and
(ii) general trade—including sari-sari stores, market stalls, kiosks and eateries.

Banking
PNB, through its Head Office and 715 domestic branches/offices and 71 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

Its banking activities are undertaken through the following groups within the Bank, namely:

Retail Banking Sector
The Retail Banking Sector (RBS) principally focuses on retail deposit products (i.e., current accounts, savings accounts and high cost accounts), cards products, consumer loan products, Cash Management Solutions and other services. While the main purpose is the generation of lower cost funding for the Bank's operations, RBS also concentrates on the cross-selling of trust, fixed income and bancassurance products to existing customers, and referrals of customers by transforming its domestic and overseas branch distribution channels into a sales-focused organization.

Retail Lending Group
The Retail Lending Group (RLG) will be the consumer lending arm of the Bank upon the full integration of its wholly owned thrift bank subsidiary, PNB Savings Bank, into the Parent Bank. RLG is tasked to provide the Bank's retail clients with home mortgage loans and car financing.

Institutional Banking Sector
The Institutional Banking Sector (IBS) is responsible for the establishment, expansion and overall management of banking relationships with large corporates, middle market and SME customers as well as with Government entities.

Global Banking and Markets Sector
The Global Banking and Markets Sector (GBMS) oversees the management of the Bank's liquidity and regulatory reserves as well as the risk positions on interest rates and foreign exchange arising from the daily inherent operations in deposit-taking and lending, and from proprietary trading. Its functions also include providing treasury solutions to clients and an oversight on risk positions of the Bank's foreign branches and subsidiaries. GBMS is likewise responsible for the establishment and maintenance of correspondent banking relationship with foreign and local banks and non-bank financial institutions as well as the acquisition and management of banking relationship with multinational companies.

International Banking & Remittance Group
The International Banking & Remittance Group (IBRG) covers the Bank's overseas offices across Asia, Middle East, North America and Europe. It provides convenient and safe remittance services to overseas Filipino workers (OFWs) as well as full banking services in selected jurisdictions, including overseas bills payment, deposit account opening, corporate, credit and trade facilities. Through IBRG, the Bank offers Own a Philippine Home Loan (OPHL), a financing facility for overseas Filipinos and non-Filipinos for their real estate investments in the Philippines. IBRG is also responsible in forging and maintaining partnerships with remittance agents to further extend its scope and reach to the OFW market beyond its brick and mortar overseas offices.

Wealth Management Group
The Wealth Management Group (WMG) is responsible for the development of new and non-traditional products for wealth management and strengthening of business relationship with Wealth Management clients. WMG's services include brokering of fixed income securities (e.g., Peso- and USD-denominated government and corporate securities), selling of pooled funds (Unit Investment Trust Funds), Variable Unit-Linked Funds, and other investment vehicles that potentially offer higher yields compared to traditional deposit products.

Trust Banking Group
PNB Trust Banking Group (TBG) provides a full range of Trust products and services designed to serve a broad spectrum of market segments. TBG's personal trust products and services include personal management trust, investment management, estate planning, guardianship, life insurance trust, and escrow. Corporate trust services and products include corporate trusteeship, securitization, portfolio management, administration of employee benefit plans, pension and retirement plans, and trust indenture services. Other fiduciary services include such roles as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank. TBG also manages thirteen Philippine Peso- and US dollar-denominated Unit Investment Trust Funds (UITFs). These include money market funds, bond funds, balanced funds, and equity funds.

Property Development
The Company markets its projects to residential market segments, office locators and commercial tenants through internal and external sales and marketing channels. For its leasing business, the Company employs a dedicated team who coordinates with business entities for leasing opportunities in the company's various projects.

Status of any publicly announced new product or services

Distilled spirits

There were no publicly-announced new projects for the distilled spirits, bioethanol and power and property development segments.

Beverage

In February 2019, APFI launched Bifrutas, the first ever milk and fruit juice drink in the Philippines.

Banking

The Bank has launched the following products and services in 2019:

- PNB, PPS-EPP, and GCash partnership
- ABIC All-in 888 Insurance
- Enhanced ATMSafe Features and Benefits
- PNB Prepaid Mastercard
- PNB-PAL Mabuhay Miles Prepaid Mastercard
- PNB Sea Games Prepaid Mastercard

Tobacco

In 2019, the following were the product innovations and upgrades:

1. *Marlboro* Fusion Purple (new product launch)
2. *Marlboro* 10s (launch in Pilot areas and in key accounts)
3. *Marlboro* Crafted (launch in Pilot area – CDO City)
4. *Fortune* pack revamp (new pack look and image platform)
5. *Fortune* Tropa Trip Fiesta (limited pack edition)

Competitive business condition/position in the industry

Distilled Spirits

Liquor Products

The Philippine liquor market increased by 3% in 2019 based on the retail audit of Nielsen with Vismin outgrowing the other regions with its +5% growth. With its strong performance in the Vismin region, TDI gained 1.3ppts to end the year with 29% national market share. TDI posted a strong performance in Visayas (+10% in volume). In Mindanao, TDI had a 6% increase in volume of sales resulting in a growth in market share by +2.8 ppts due to faster decline in volume of sales of competitors.

Bio-Ethanol Fuel

There are presently fifteen registered local bioethanol producers in the country with a total registered capacity of 455 million liters (ML) per year. In 2019, only 12 bioethanol producers with a combined capacity of 380 ML were operational as against the country's total ethanol requirement of around 550ML. Due to the shortage in local bioethanol supply, oil companies were being allowed to import bio-ethanol to cover the deficiency. The intent of the law however is that all locally produced ethanol must be consumed first before any importation is allowed. Presently, the Department of Energy controls the importation of ethanol through the Notice of Value of Bioethanol Importation Allowed (NAVBI). The increase in ethanol production created a huge demand for locally produced molasses resulting to higher prices.

Beverage

ABI competes against leading Philippine and international beverage brands across all of its product categories. Its main competitors for each product category include the following:

- Energy drinks - ABI competes with Pepsico's *Sting* energy drink, Coca-Cola's *Thunder*, and *Extra Joss, Lipovitan* and others;
- Bottled water - ABI's main competitors are Philippine Spring Water Resources' *Nature's Spring* and Coca-Cola's *Wilkins*, among others; and
- Soymilk - ABI competes with *Vitasoy*, *Lactasoy* and *Soyfresh*.

ABI, through its stake in ABHP, competes against the following alcoholic beverage brands:

- Beer - ABHP competes mainly with *San Miguel Beer*, *San Mig Light*, *Red Horse Beer*, *San Miguel Premium All-Malt Beer* and *Gold Eagle Beer*, all of which are brands of the San Miguel Corporation; and
- Alcopop - ABHP's main competitors include *Antonov, Vodka Ice, Smirnoff* and *Infinit*.

Tobacco

PMFTC's main competitors are JTI Philippines and Associated Anglo-American Tobacco (AAATC). JTI offers a number of well-known international brands such as *Winston, Camel* and *Mevius.* With the finalization of its acquisition of Mighty Corporation last September 2017, JTI now carries Philippine brands such as *Mighty* and *Marvels*. Key brands of AAATC, a local manufacturer, are *Winsborro* and *Dallas*.

Banking

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A.10641 in 2014, as well as the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there were 46 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 26 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products; have larger lending limits; and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Lucio Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 17 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks. As of December 30, 2019, the Bank has a distribution network of 715 branches and offices and 1,626 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

Property Development

Location is the main differentiator for Eton's projects. As showcased in its various developments, location played a major role in land development. All of the Company's residential, township, commercial centers and BPO offices are set in prime locations in the country's major cities and growth areas, offering more value for communities surrounding the project, outsourcing firms and office locators and retail tenants. Ayala Land, Megaworld, Filinvest Land and Robinsons Land are the Company's main competitors.

Raw Materials and Principal Suppliers

Distilled Spirits

- **Alcohol**
  TDI uses ethyl alcohol, which is distilled from sugarcane molasses. TDI obtains most of its ethyl alcohol from its two subsidiaries – AAC and ADI and other suppliers. Manapla Distillery which is owned by Victorias Milling Company, is also one of the alcohol suppliers of TDI.

  Alcohol is delivered directly to the plant by tankers. The quality of alcohol is checked prior to acceptance. In 2019, alcohol accounted for 27% of product cost while excise tax accounted for 37% of the total costs. The tax is paid upon withdrawal of the full goods from the production sites. With the temporary shutdown of AAC's operations, TDI increased its importation of alcohol from Pakistan & Indonesia.

  The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Universal Robina Corporation, Victorias Milling Corporation, Binalbagan Sugar Company, LYL Marketing, Shuurmans & Van Ginneken Phils., Inc., Grandcane Company, Inc., and Tate & Lyle Corp.

- **Sugar**
  This is added when deemed necessary to enhance the taste and aroma of a particular product.

- **Water**
  The plants use significant amounts of demineralized water for blending liquor products. The water is supplied by the local utility. Each plant has its own water storage and demineralization facilities.

- **Flavoring Agents**
  For some products, essences and other flavoring agents are added to attain the desired color, flavor and aroma as well as to reinforce the natural quality of rum as derived from molasses and ageing in oak barrels.

- **Bottles**
  TDI's liquor products are packaged in glass bottles. Glass bottles account for approximately 19% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles. TDI maintains a network of secondhand bottle dealers across the nation that retrieve the bottles from the market and sell them back to TDI. The cost of the secondhand bottles including the cost of cleaning is 50% lower than the cost of purchasing new bottles.

- **Caps**
  All products are sealed with tamper-proof resealable aluminum caps, which average at 2% of total product cost.

- **Labels**
  The labels being used are made from imported base coated paper. Label cost accounts for 1% of product cost.

There are no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

Beverage
ABI's energy drinks consist of a base of flavor concentrate, which is diluted with water and sweetened with sugar. Carbon dioxide is then added to provide carbonation. ABI's energy drink concentrates are sourced primarily from well-known international suppliers. Sugar is procured from third-party and related party local suppliers including Victorias Milling Corporation, generally under supply contracts of up to one year. ABI also purchases carbon dioxide and other additives from local producers. Water is sourced from sources near ABI's production plants.

Quality of water is the primary ingredient in the water bottling business of ABI. Water is sourced primarily from sites near the bottling plants and undergoes several purifying steps to ensure it meets standards.

ABI manufactures the majority of the bottles used for its beverage products. These are manufactured at ABI's Cabuyao plant in Laguna. Bottling and packaging materials, including aluminum closures, crowns and corrugated cartons are produced by ABI's subsidiary, PWI, which purchases any required raw materials from multiple suppliers in the Philippines and internationally.

Tobacco

FTC's main source of income is dividends from PMFTC.

FTC has no long-term purchase commitments as purchases are made through purchase orders on a per need basis from a list of accredited suppliers.

With the expiration of the CMA between FTC and JTI, the Company no longer buys raw materials.

Banking

This is not applicable for banks.

Property Development
The Company has a wide network of suppliers, both local and foreign.

Dependence on one or two major customers

Distilled Spirits

Liquor Products
TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2019, sales volume in the Visayas and Mindanao regions accounted for approximately 47% and 52% of TDI's gross sales volume, respectively. TDI attributes its leading position in the distilled spirits industry to strong brand equity, utilization of diverse marketing channels and an established distribution network.

TDI presently buys most of its alcohol from a network of suppliers locally and abroad due to high cost of locally produced alcohol.

Bioethanol
ADIs principal customers for its bioethanol are local oil companies on a purchase order basis and there are no long-term supply commitments/ arrangements .

Beverage
ABI has stable relationships with its 13 exclusive distributors for its beverage business. For its commercial glass business, ABI supplies to several established beverage and food manufacturers in the Philippines. In both its beverage and commercial glass businesses, ABI's financial well-being is not dependent on only one or two major customers.

Tobacco

PMFTC directly sells its products primarily to local wholesalers, which then sell products to retailers such as sari-sari stores. Sari-sari stores and vendors often sell cigarettes to adult consumers by the stick as opposed to selling by the pack. Due to their presence across a wide network of localities and their financial capacity, these wholesalers offer a means for manufacturers such as PMFTC to reach a large number of retailers and customers without having to sell to each individual point of sale.

Banking

PNB offers a wide range of financial services in the Philippines. The Bank has foreign operations and has a stronghold in the remittance business in 17 countries in North America, Europe, the Middle East and Asia thus, its financial well-being is not dependent on only one or two major customers.

Property Development

The Company has a wide customer base and is not dependent on one or a limited number of customers.

Transactions with and/or dependence on related parties

The Company has various transactions with its subsidiaries and associates and other related parties. These are enumerated in detail in Note 22 of the Notes to Consolidated Financial Statements.

Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts

Distilled Spirits

All product names, devices and logos used by TDI are registered with or are covered by a pending Application for Registration with the Intellectual Property Office of the Philippines.

TDIs bottling and distillery plants have current Environmental Compliance Certificate issued by the DENR. TDI has a license to operate from the Bureau of Food and Drugs and all liquor products currently being produced are registered with the Bureau of Food and Drugs and the BIR.

TDI has existing agreement with London Birmingham Distillers, Ltd. London, England for the use of the London Gin brand.

ADI and AAC are registered with the Sugar Regulatory Administration as producer of bioethanol.

ADI entered into a 25-year solar energy service contract with the DOE for the right to explore solar energy resources in agreed areas in Lian, Batangas, renewable for another 25 years at the option of the parties.

ADI’s bioethanol and solar power plant are registered with the Board of Investments (BOI) under the Omnibus Investment Code of 1987.

TDI and its subsidiaries have existing service agreements with two (2) service contracting agencies and two (2) labor cooperatives .

Beverage

ABI has caused the registration with the Philippine Intellectual Property Office of a variety of marks including “Asia Brewery, Inc.,” the ABI logo, *Cobra Energy Drink*, *Absolute Pure Distilled Drinking Water*, *Summit Water*, *Creamy Delight*, and *Bifrutas*. These exclusive distribution licenses are registered with the IPO and the equivalent regulatory agencies in various other countries.

Under the terms of the business combination between ABI and HIBV, the intellectual property rights of the following ABI-developed brands were transferred to ABHP: *Colt 45*, *Beer na Beer*, *Manila Beer Light*, and *Brew Kettle.*. ABHP holds licenses for the Heineken and Tiger trademarks from HIBV.

ABI and its subsidiaries have existing license agreements with Switzerland's Nestle, the U.S.'s Sunkist Growers, Inc. and Thailand's Green Spot Company Limited for the manufacture and distribution of Nestea, Sunkist and Vitamilk, respectively.

Tobacco
Under the terms of the business combination, both FTC and PMPMI transferred the intellectual property rights to their local brands to PMFTC. PMI has licensed its international trademarks to PMFTC for so long as the business combination exists and for which PMFTC makes regular royalty payments.

Banking
The Bank's operations are not dependent on any patents, trademarks, copyrights, franchises, concessions, and royalty agreements.

Property Development
The trademark of the following names and devices were approved by the Intellectual Property Office (IPO):

Year	Names and/or Devices
2008	a. Eton City b. Eton corporate name and device c. The Eton Residences Greenbelt d. Eton Baypark Manila e. Eton Centris f. Move-in Ready labels
2009	a. The Makati of the South b. Eton Emerald Lofts
2011	a. Centris Walk b. Eton Tower Makati c. Riverbend d. Eton Parkview Greenbelt e. Southlake Village f. Eton Cyberpod g. Centris Station h. 8 Adriatico i. Belton Place j. E-life k. West Wing Villas l. Green Podium m. Aurora Heights Residences n. West Wing Residences o. One Archers Place p. 68 Roces
2012	a. West Wing Tropics b. One Centris Place
2016	a. The Mini Suites b. Eton WestEnd Square
2017	a. Station Alley at Centris b. Arcada c. Eton Nexus Tower d. NXTower e. Eton "NXT" Tower f. The Courtyard at Eton City

In 2018, the following names and devices were applied with the IPO:

a. Centris Cyberpod
b. Centris Elements
c. Cyberpod Centris
d. Cyberpod Centris One
e. Cyberpod Centris Two
f. Cyberpod Centris Three
g. Cyberpod Centris Five
h. Eton Cyberpod Corinthian
i. Elements at Centris
j. Cyberpod One
k. Cyberpod Two
l. Cyberpod Three
m. Cyberpod Five
n. Eton Centris with different graphical representations
o. Centris Walk with different graphical representation
p. Centris Station with different graphical representation
q. Eton City with different graphical representation

Eton corporate name and device, Eton Residences Greenbelt, and Eton Baypark Manila were reapplied with the IPO.

These trademarks shall be valid for a period of ten (10) years from notice of approval.

Need for any government approval of principal products

Distilled Spirits & Beverages
The approval of the Bureau of Food & Drugs and Bureau of Internal Revenue is required before selling and/or advertising a new product. In addition, all new products must be registered with the BIR prior to production. ADI and AAC are registered bio-ethanol producers with the Sugar Regulatory Administration.

Tobacco
The company files with the BIR its Manufacturer's declaration for the production of its products.

Banking
Generally, e-banking products and services require Bangko Sentral ng Pilipinas (BSP) approval. New deposit products require notification to the BSP. The Bank has complied with the aforementioned BSP requirements.

Property Development
The Company complies with all government agencies in securing licenses to sell, development permits, Environmental Compliance Certificate (ECC) and all other mandated requirements of the industry.

Effect of existing or probable governmental regulations on the business

Distilled Spirits
The increase in value-added and excise taxes will affect manufacturing costs, which may require increase in selling prices. Higher selling prices can lower volume of sales.

The foreign alcohol market, coupled with new technologies on alcohol production and lower tariffs, can make the price of imported alcohol cheaper than those produced locally.

TDI and its subsidiaries are subject to various laws promulgated to protect the environment such as the Environment Impact Statement System (EIS), Clean Air Act, Clean Water Act Law, Laguna Lake Development Act. Compliance with these laws is mandatory for the continued operation of TDI and its subsidiaries.

The pricing for local bioethanol products is based on the reference rate as set by the SRA.

Beverage

Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. In particular, governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Any of these and other legal or regulatory changes could materially and adversely affect ABI's financial condition and results of operations.

ABI's products are subject to value added taxes ("VAT"). Any increases in VAT may reduce the overall consumption of ABI's products. Beer and other alcoholic beverages of ABHP, including alcopop products such as Tanduay Ice, are subject to an excise tax in addition to VAT. Starting January 2018, a tax on sugar-sweetened beverages was imposed, subjecting several ABI products – Cobra, Sunkist, Nestea, and Barista's Best – to excise taxes. Any increases in the rate and scope of excise taxes imposed by the taxing authorities may likewise reduce consumption.

There is no guarantee that the increased taxes can be shouldered by ABI; subsequently, it may be passed on by ABI to its consumers, which may result in lower demand for its products and have an adverse effect on ABI's business, financial condition and results of operations.

Tobacco

On December 19, 2012, President Benigno Aquino III signed R.A. 10351 into law which modified the applicable excise tax rates on alcohol and tobacco products, including cigarettes effective January 1, 2013.

During the first year of R.A. 10351's implementation, high-priced cigarettes were taxed at a rate of ₱25.00 per pack and low-priced cigarettes will be taxed at ₱12.00 per pack. In the second year, the rates were increased to ₱27.00 and ₱17.00 per pack, respectively. In 2015, the high-priced cigarettes were taxed at ₱28.00 per pack and the low-priced cigarettes at ₱21.00 per pack. Said rates were increased in 2016 at ₱29.00 and ₱25.00 per pack, respectively. In 2017, all cigarettes were taxed with a unitary rate of ₱30.00 per pack.

On December 19, 2017, the President of the Philippines signed into law Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN), which increased the unitary excise tax higher than the RA 10351. The excise tax rate per pack was at ₱ 32.50 from January until June 2018, ₱35.00 until December 2019, ₱ 37.50 until 2021, then ₱ 40.00 until 2023, with an increase of four percent annually from 2023 onwards.

From the regulatory standpoint, Executive Order No. 26 (Providing for the establishment of smoke-free environments in public and enclosed places) was also signed by the President and became effective last July 23, 2017.

Banking

The Philippines' banking industry is highly regulated by the BSP (Bangko Sentral ng Pilipinas). The bank through its compliance division ensures adoption and adherence to recent regulatory pronouncements and rulings.

Property Development

The Company strictly complies with, and adheres to, existing and probable government regulations in the conduct of its business.

Research and development activities

The research and development activities of the Group for the past three years did not amount to a significant percentage of revenues.

Costs and effects of compliance with environmental laws

Distilled Spirits
TDI regards occupational health and safety as one of its most important corporate and social responsibilities and it is TDI's corporate policy to comply with existing environmental laws and regulations. TDI maintains various environmental protection systems which have been favorably cited by the environmental regulators. Since TDI's operations are subject to a broad range of health, safety and environmental laws and regulations, TDI convenes a quarterly strategic meeting among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness.

Environmental Management Facilities
TDI places critical importance on environmental protection. To further this aim, TDI invests in facilities which it believes will reduce the impact of its operations on the environment, as well as reduce its operating costs. On November 22, 2012, the Federation of Philippine Industries named Tanduay as the most outstanding company in the Philippines in relation to its optimum use and recycling of resources.

Bottle Recycling
A major component of TDI's operations is the retrieval of secondhand bottles and the reuse of these bottles in TDI's production process. The cost of a used bottle, including washing costs, is approximately 50% less than the cost of a new bottle. Apart from the reduced cost, TDI also benefits from the reduced waste in reusing bottles as a bottle can be reused an average of three to four times. TDI relies on a nationwide network of junk shops throughout the Philippines for purchasing second hand bottles. Repurchasing bottles also helps TDI in marketing its products, as customers can sell their bottles after consuming the contents. TDI has also invested in automated bottle washing facilities in all its bottling plants.

Waste Water Treatment Plants

Bottling Plants
TDI has wastewater treatment facilities in all its bottling plants that screen, collect and neutralize all wastes from the bottling process before these are discharged. The wastes generally emanate from the bottle washing process that uses certain chemicals to thoroughly clean the bottles. Philippine regulatory agencies such as the DENR and Laguna Lake Development Authority (LLDA) conduct annual inspections of TDI's wastewater treatment process.

Distillation Plants
Wastewater is collected in lagoons where it undergoes a treatment process to minimize adverse effects on the environment. Treated wastewater, along with other distillery wastes, is also usable as liquid fertilizer. ADI has waste water treatment digestor and methane gas collector that reduces carbon emissions and serves as secondary source of power for the distillation plant.

ADI has also installed a Biomenthanated Spent Wash Evaporation plant that will be used for the evaporation of wastewater in its Batangas distillation plant. The project aims to save on liquid fertilization costs.

Beverage
ABI regards occupational health and safety as one of its important corporate and social responsibilities. ABI's policy is to comply with existing environmental laws and regulations. ABI has made significant investments in its physical facilities to comply with its environmental policy, including investments in environmental protection systems, such as wastewater treatment which have been cited favorably by environmental regulators. Since ABI's operations are subject to a broad range of safety, health and environmental laws and regulations, ABI convenes a quarterly strategic program among its department leaders to review, discuss and develop goals surrounding health, safety and environmental compliance and awareness. ABI has also appointed a safety compliance officer for its operations and facilities, who is shared with TDI.

Tobacco
PMFTC's goal is to manufacture quality products while recognizing performance in environmental, health and safety (EHS) as an integral part of the business. Therefore, PMFTC is committed to reduce the environmental impact of its activities and promote the sustainability of the environment (upon which it depends), to prevent occupational injuries and illnesses in the workplace by addressing any foreseeable hazards while improving and protecting its physical assets, and to comply with all laws and regulations related to EHS.

PMFTC has continuously allocated significant investments in EHS improvements and upgrades in its Batangas factory, Marikina facilities and tobacco threshing plant in Ilocos province. Rigorous monitoring and reporting systems are put in place in parallel to training to all employees, resulting in the successful certification by SGS S.A. of the Batangas factory as compliant in accordance with ISO 9000 (Quality), ISO 14000 (Environment), OSHA 18000 (Occupational Health) since 2007.

Banking
This is not applicable to banks.

Property Development
The Company's development plans provide for full compliance with environmental safety and protection in accordance with law. The Company provides the necessary sewage systems and ecological enhancements such as open space landscaping with greenery.

The Company complies with the various government approvals such as ECC, development permit and licenses to sell, among others, and incurs expenses for complying with the environment laws. This consists mainly of payments of government regulatory fees which are standard in the industry and are minimal.

Human Resources and Labor Matters
LTG had 13 administrative and 5 regular monthly employees as of December 31, 2019. The total workforce of the Group inclusive of contractual employees was as follows:

Distilled Spirits	1,623
Beverage	3,910
Tobacco	48
Banking	8,550
Property development	391
Total	14,522

Distilled Spirits
TDI has 1,212 employees as of December 31, 2019. With the exception of the Cagayan De Oro Plant, all regular daily employees of the TDI plants are unionized. TDI-Cabuyao's regular daily employees has a Collective Bargaining Agreement (CBA) with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective up to 2022. TDI Negros' regular daily employees assigned in its bottling operations has a CBA with the Labor Union of Tanduay Employees (LUTE) effective up to 2022.

AAC has 183 employees with no existing Union.

As of December 31, 2019, ADI has 228 employees. ADI's registered labor union is Absolut Distillers, Inc. Employees Union-Olalia-KMU. Current CBA is effective up to 2020.

TDI and subsidiaries expect to maintain its average number of employees in the next (12) twelve months.

There are no supplemental benefits or incentive arrangements that the Group has or will have with its employees.

Beverage
As of December 31, 2019, approximately out of the 3,910 (including contractual employees) ABI and its subsidiaries directly employed 2,889 people, of which about 77% were employed in manufacturing and logistics, 20% had general and administrative functions, 1% were in sales and distribution, and 2% were in marketing.

ABI and its subsidiaries generally employ a number of outsourced laborers from third-party service providers. ABI contracts with these manpower and services firms for the supply of additional laborers.

ABI is party to a collective bargaining agreement (CBA) for its employees at its Cabuyao plant. The CBA was signed on July 12, 2019 and is effective until December 31, 2020. CBA negotiations for ABI's El Salvador plant commenced on February 20, 2020.

ABI believes that its relations with both its unionized and non-unionized employees are good. ABI has not experienced any work stoppages due to industrial disputes since 1999.

Tobacco
FTC had 48 regular monthly employees as of December 31, 2019. Effective January 1, 2012, FTC ceased to have daily (regular or casual) employees because of the business combination of FTC and PMPMI effective on February 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company.

Banking
The total employees of the Bank as of December 31, 2019 is 8,550 wherein 4,318 were classified as Bank officers and 4,232 as rank and file employees.

The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency.

With regard to the Collective Bargaining Agreement (CBA), the Bank's regular rank and file employees are represented by Philnabank Employees Association (PEMA). The two unions under the merged bank namely: PNB Employees Union (PNBEU) and Philnabank Employees Association (PEMA) merged effective July 1, 2019 with PEMA as the surviving union. Existing CBAs are until June 30, 2020.

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial. Industrial Peace is continuously being enjoyed by both Management and Organized Union.

Property Development
The Company had 391 and 400 employees at the close of the calendar year December 31, 2019 and 2018, respectively. The breakdown of the Company employees as of December 31, 2019, according to type are as follows:

Executive	20
Managers	92
Officers	66
Supervisors	65
Rank and File	148
Total	391

The Company will continue to hire qualified and competent employees for the next twelve months to support its plans and programs to achieve revenue, growth and efficiency targets. The Company's employees do not belong to any labor union or federation.

At present, its employees receive compensation and benefits in accordance with the Labor Code of the Philippines.

<u>Major risk/s and Procedures Being Taken to Address the Risks</u>

<u>Distilled Spirits</u>

Market / Competitor Risk
TDI's core consumer base for its products are lower-income consumers. Customers are classified into "economy" and "standard" markets, with monthly income levels of up to ₱10,000 and ₱100,000, respectively. According to the 2006 Philippine National Statistics Coordination Board (NSCB) Family Expenditure Survey and a 2009 Usage, Attitude and Image Survey conducted by the Philippine Survey Research Council, this consumer base comprises approximately 80% of the Philippine population and likewise accounts for approximately 90% of liquor consumption. The preferences of these consumers change for various reasons driven largely by demographics, social trends in leisure activities and health effects. Entry of new competitive and substitute products to address these customers' preferences may adversely affect the business prospects of TDI if it does not adapt or respond to these changes.

In addition, the market of TDI is highly sensitive to price changes given the purchasing power and disposable income of its customers. Any adverse change in the economic environment of the Philippines may affect the purchasing power of the consumers and adversely affect TDI's financial position and performance.

TDI responds to customer preferences by continuing to monitor market trends and consumer needs to identify potential opportunities. Its existing product portfolio covers all major liquor categories and price ranges enabling it to respond quickly to any change in consumer preference. Development of new products and brands is continuously being undertaken to address the current and emerging requirements of the customers.

Raw Material Supply Risk
The main raw material that TDI and subsidiaries use for the production of its liquor products and bioethanol is molasses which is subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls. A shortage in the local supply of molasses and the volatility in its price may adversely affect the operations and financial performance of TDI and its subsidiaries.

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports ethyl alcohol in the event that the local supply is not sufficient or if prices are not favorable. Furthermore, TDI's parent company owns a 30.9% stake in Victorias Milling Company, Inc. (VMC) as of December 31, 2019. VMC is the largest sugar producer in the Philippines and currently one of TDI's major supplier of molasses.

Furthermore, the acquisition of AAC and ADI was designed to control alcohol cost and minimize the chances of a shortage in supply. Adequate storage facilities have been constructed to enable TDI to buy and stock molasses at the time when sugar centrals are at their production peaks. To address any disruption in supply from AAC and ADI, TDI also maintains a network of local and foreign alcohol suppliers.

Credit Risk
TDI relies on 10 exclusive distributors for the sale of its liquor products. Any disruption or deterioration in the credit worthiness of these distributors may adversely affect their ability to satisfy their obligations to TDI.

The operations and financial condition of distributors are monitored daily and directly supervised by TDI's sales and marketing group. Credit dealings with these distributors for the past twenty years have been generally satisfactory and TDI does not expect any deterioration in credit worthiness. The ten distributors also a have a wide range of retail outlets and there are no significant concentration of risk with any counterparty.

Trademark Infringement Risk
TDI's image and sales may be affected by counterfeit products with inferior quality. Its new product development efforts may also be hampered by the unavailability of certain desired brand names. TDI safeguards its brand names, trademarks and other intellectual property rights by registering them with the IPO and in all countries where it sells or plans to sell its products. Brand names for future development are also being registered in advance of use to ensure that these are available once TDI decides to use them. Except for companies belonging to the LT Group, TDI also does not license any third party to use its brand names and trademarks.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps is also seen as a major deterrent to counterfeiting.

Regulatory Risk
TDI is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling both in the Philippines and in the countries where it distributes its products. Specifically, in the Philippines, these include the Bureau of Food and Drugs, Department of Environment and Natural Resources, Bureau of Internal Revenue and Intellectual Property Office.

Decisions and changes in the legal and regulatory environment in the domestic market and in the countries in which it operates or seeks to operate could limit its business activities or increase its operating costs. The government may impose regulations such as increases in sales or specific taxes which may materially and adversely affect TDI's operations and financial performance.

To address regulatory risks like the imposition of higher excise taxes, TDI would increase its selling prices and make efforts to reduce costs. Other regulatory risks are managed through close monitoring and coordination with the regulatory agencies on the application and renewal of permits. TDI closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. TDI is a member of the Distilled Spirits Association of the Philippines and the Bioethanol Producers Association which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk
The operation of TDI's existing and future plants are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on the storage, handling, employee exposure to hazardous substances and other aspects of the operations of these facilities and businesses. TDI has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. The discharge of hazardous substances or other pollutants into the air, soil or water may cause TDI to be liable to third parties, the Philippine government or to the local government units with jurisdiction over the areas where TDI's facilities are located. TDI may be required to incur costs to remedy the damage caused by such discharges or pay fines or other penalties for non-compliance.

There is no assurance that TDI will not become involved in future litigation or other proceedings or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. Clean-up and remediation costs of the sites in which its facilities are located and related litigation could materially and adversely affect TDI's cash flow, results of operations and financial condition.

It is the policy of TDI to comply with existing environmental laws and regulations. A major portion of its investment in physical facilities was allocated to environmental protection systems which have been favorably cited as compliant by the environmental regulators.

Counterfeiting risk
TDI's success is partly driven by the public's perception of its various brands. Any fault in the processing or manufacturing, either deliberately or accidentally, of the products may give rise to product liability claims. These claims may adversely affect the reputation and the financial performance of TDI.

The risk of counterfeiting is constantly being monitored and legal action is undertaken against any violators. The use of tamper proof caps also helps prevent counterfeiting. All brand names, devices, marks and logos are registered in the Philippines and foreign markets.

The Quality Program of TDI ensures that its people and physical processes strictly comply with prescribed product and process standards. It has a Customer Complaint System that gathers, analyzes and corrects all defects noted in its products. Employees are directed to be observant of any defects in the Company's products on display in sales outlets and buy the items with defects and surrender these to TDI for reprocessing.

Last July 21, 2014, Tanduay Cabuyao Plant successfully passed the ISO 9001:2008 Certification Audit while the Negros Plant was certified last December 31, 2014. This was an achievement for Tanduay since the Company was able to certify 2 plants in a year. ISO 9001:2008 specifies requirements for a quality management system where an organization needs to demonstrate its ability to consistently provide product that meets customer and applicable statutory and regulatory requirements and aims to enhance customer satisfaction through the effective application of the system including processes for continues improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.

<u>Beverage</u>

Market / Competitor Risk
The substantial majority of ABI's customers in the Philippines belong to the lower socio-economic classes, where discretionary income is limited. Accordingly, the market for beverages such as energy drinks, beer and other ABI products is price elastic. If ABI raises the prices of its products, sales volumes will likely decline, and the decline may not be offset by the increase in prices, which may result in a lower level of net sales.

The ability of ABI to successfully launch new products and maintain demand for its existing products depends on the acceptance of these products by consumers, as well as the purchasing power of consumers. Consumer preferences may shift because of a variety of reasons, including changes in demographic and social trends or changes in leisure activity patterns.

To address such risks, ABI expects younger consumers to be a key driver of the demand for ABI's products and its growth, notably for energy drinks and ABHP's alcopops. ABI plans to focus its product development and marketing efforts in these segments on such consumers. ABI intends to use marketing channels such as social media to improve product communication with its target customers.

In addition, ABI has the most diverse beverage portfolio in the Philippines and is one of the few beverage companies in the Philippines with a well-established and leading presence across multiple segments in the beverage industry. ABI believes that its ability to offer a strong portfolio of brands across multiple categories is a key competitive advantage and allows for significant leverage over its distributors.

Raw Material Supply Risk
The manufacture of ABI's products depends on raw materials that ABI sources from third-party and related suppliers. Sugar used to produce energy drinks and other sweetened beverages is generally purchased under supply contracts of up to one year. ABHP's hops and barley are primarily sourced abroad. Raw materials

used by ABI and its related companies are subject to price volatility caused by changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

ABI addresses this risk by actively monitoring the availability and prices of raw materials. ABI may also shift to alternative raw materials used in the production of its products. Apart from these, ABI also monitors the market for hedging opportunities to lock in the price of raw materials such as bunker fuel used in the production of commercial bottles.

Regulatory Risk
Regulatory decisions or changes in the legal and regulatory requirements in a number of areas related to the beverage industry may have adverse effect on ABI's business. Governmental bodies may subject ABI to actions such as product recall, seizure of products and other sanctions, any of which could have an adverse effect on ABI's sales. Also, any increases in excise taxes or VAT may reduce overall consumption and demand for ABI's products, as consumers prioritize basic necessities in view of higher living costs.

ABI may increase its selling prices and make efforts to reduce costs to address such risks. Close monitoring and coordination with the regulatory agencies on the application and renewal of permits are implemented to manage other regulatory risks.

Safety, health and environmental laws risk
Various environmental laws and regulations govern the operations of ABI including the management of solid wastes, water and air quality, toxic substances and hazardous wastes at ABI's breweries. Non-compliance with the legal requirements or violations of prescribed standards and limits under these laws could expose ABI to potential liabilities, including both administrative penalties in the form of fines and criminal liability. Violations of environmental laws could also result in the suspension and/or revocation of permits or licenses held by ABI or required suspension or closure of operations.

Strict compliance with environmental laws and regulations is continuously implemented by ABI to address the risk.

<u>Tobacco</u>
The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk
PMFTC competes primarily on the basis of product quality, brand recognition, brand loyalty, taste, innovation, packaging, service, marketing, advertising and price. Although PMFTC has historically been able to maintain its leadership position in the Philippine tobacco market, the Company believes that the market landscape is constantly evolving, and market players can gain or lose market share very quickly.

The competitive environment and PMFTC's competitive position can be significantly influenced by erosion of consumer confidence, competitors' introduction of lower-priced products or innovative products, as well as product regulation that diminishes the ability to differentiate tobacco products.

To address the risk, PMFTC employs improvement in product penetration and distribution channels that will further strengthen its leadership position in the Philippine cigarette market. In addition, PMFTC will continue to focus on consumer research to assess adult consumer insight, trends, behavior and preferences in order to develop marketing campaigns that improve customer engagement. The continued integration of FTC and PMPMI will also help in further improvements in sales productivity and efficiency. A unified sales force for all products under PMFTC's control would allow it to more effectively drive product penetration and sales.

Regulatory Risk
Tax regimes, including excise taxes, sales taxes and import duties, can disproportionately affect the retail price of manufactured cigarettes versus other tobacco products. The Company believes that general increases in cigarette taxes are expected to continue to have an adverse impact on PMFTC's sales of

cigarettes, such as a possible decline in the overall sales volume of its products or a shift in adult consumer preferences from manufactured cigarettes to other tobacco products, from purchases of high-end tobacco products to low-end products, from purchases of local tobacco products to legal cross-border purchases of lower priced products, or the purchases of illicit products, whether counterfeit or deemed contraband items.

PMFTC closely liaises with appropriate regulatory agencies to anticipate any potential problems and directional shifts in policy. PMFTC is a member of the Philippine Tobacco Institute which acts as the medium for the presentation of the industry position in case of major changes in regulations.

Safety, health and environmental laws risk
PMFTC's existing and future operations are subject to a broad range of safety, health and environmental laws and regulations. These laws and regulations impose controls on air and water discharges, on storage, handling, employee exposure to hazardous substances and other aspects of the operations of PMFTC's facilities. Failure to properly manage the environmental risks and the operational, health and safety laws and regulations to which PMFTC is subject could also have a negative impact on its reputation.

It is the policy of the company to comply with existing environmental laws and regulations. PMFTC expects to incur operating costs to comply with such laws and regulations. PMFTC has continuously allocated significant investment in environmental, health and safety improvements and upgrades.

Counterfeiting risk
The risk of counterfeiting is constantly being monitored and legal action will be undertaken against any violators. All brand names, marks and logos are registered in the Philippines and foreign markets.

<u>Banking</u>
As a financial institution with various allied undertakings with an international footprint, PNB continues to comply with an evolving and regulatory and legislative framework in each of the jurisdictions in which we operate. The nature and the impact of future changes in laws and regulations are not always predictable. These changes have implications on the way business is conducted and corresponding potential impact to capital and liquidity.

Effective risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the PNB Group (PNB). PNB adds value to clients and therefore the communities in which we operate, generating returns for shareholders by taking and managing risk.

Through our Risk Management Framework, we manage enterprise wide risks, with the objective of maximizing risk-adjusted returns while remaining within our risk appetite. PNB's Board of Directors play a pivotal role and have the ultimate responsibility in bank governance through their focus on two (2) factors that will ultimately determine the success of the bank: responsibility for the bank's strategic objectives and assurance that such will be executed by choice of talents.

Strong independent oversight has been established at all levels within the group. The bank's Board of Directors has delegated specific responsibilities to various board committees which are integral to the PNB's risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.

There are eight (8) Board Committees:
1. Board Audit & Compliance Committee (BACC)
2. Board Information Technology Governance Committee (BITGC)
3. Board Oversight Related Party Transaction Committee (BORC)
4. Board Strategy & Policy Committee (BSPC)
5. Corporate Governance/Nomination/Remuneration and Sustainability (CorGov)
6. Executive Committee (EXCOM)
7. Risk Oversight Committee (ROC)

8. Trust Committee

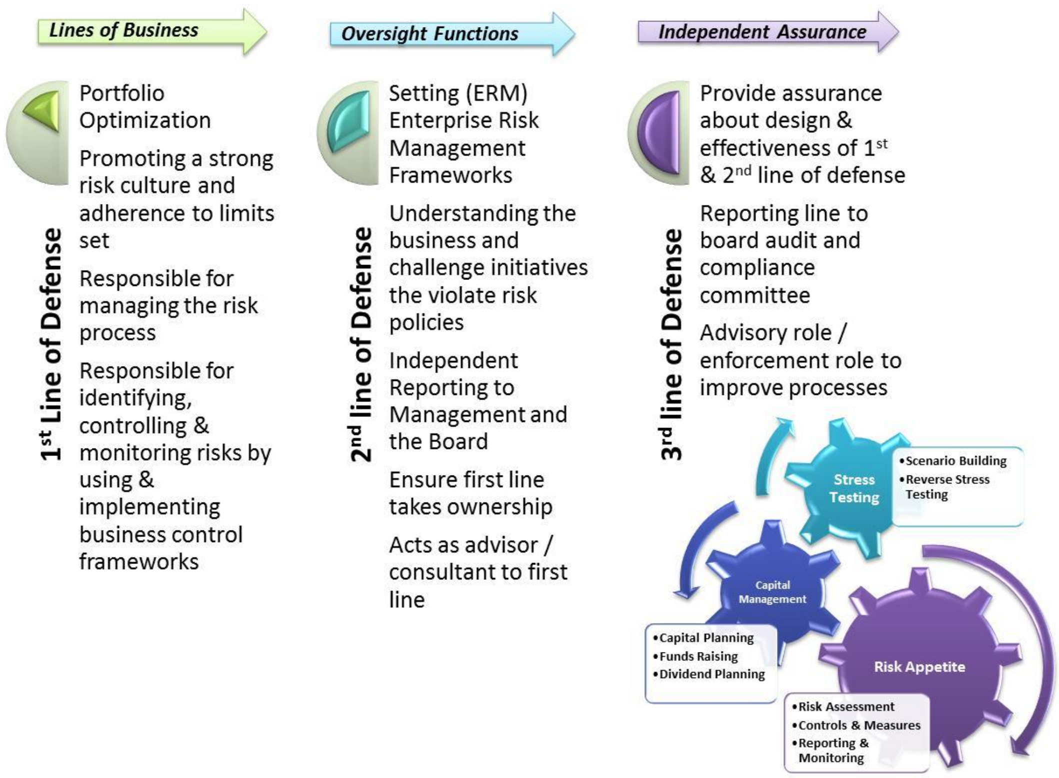
A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the Board and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of PNB, while positioning PNB Group to manage the changing regulatory environment in an effective and efficient manner.

The approach to managing risk is outlined in the bank's Enterprise Risk Management (ERM) Framework which creates the context for setting policies and standards and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.

PNB's ERM Framework, with regular reviews and updates, has served the bank well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model, which are fundamental to PNB's aspiration to be world-class at managing risk.

While the first line of defense in risk management lies primarily on the bank's risk taking units as well as the bank's support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained.

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (CRO) who reports directly to the Risk Oversight Committee. The CRO is supported by Division Heads with specialized risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and organized into the following divisions: Credit Risk Division, BASEL and ICAAP Implementation Division, Market & ALM Division, Operational Risk Division, Information Security / Technology Risk Management Division, Data Privacy Program Division, Trust and Fiduciary Risk Division and Business Intelligence & Warehouse Division.



Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These board approved policies, clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks.

The Bank's governance policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month's total risk profile according to the material risks defined by the bank in its ICAAP document.

Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

The risk management system and the directors' criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the Business Units and presented to the Risk Oversight Committee for endorsement for final Board Approval.

In line with the integration of the BSP required ICAAP and risk management processes, PNB currently monitors 10 Material Risks (3 for Pillar 1 and 7 for Pillar 2). These material risks are as follows:

Pillar 1 Risks:
1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:
1. Credit Concentration Risk
2. Interest Rate Risk in Banking Book (IRRBB)
3. Liquidity Risk
4. Reputational / Customer Franchise Risk (including Social Media and AML Risks)
5. Strategic Business Risk
6. Cyber Security / Information Security / Data Privacy Risk
7. Information Technology

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP Circular No. 538 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks with specific discussions relating to Pillar 2 risks mentioned above:

Risk Categories and Definitions
We broadly classify and define risks into the following categories and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2016 program:

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely related customers with the potential threat of losses which are substantial enough to affect the financial	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	▪ Trend Analysis (Portfolio / Past Due and NPL Levels ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	soundness of a financial institution (*BSP Circular 414)*		▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/Duration Report ▪ Exposure to Derivative/Structured Products	▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance ▪ Stress Testing ▪ BSP Uniform Stress Testing
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ MCO ▪ Liquid Gap Analysis	▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking Books (IRRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	▪ Interest Rate Gap Analysis ▪ Earnings at Risk Measurement ▪ Duration based Economic Value of Equity	▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity ▪ Stress testing ▪ BSP Uniform Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes Legal Risk but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. *(BSP Circular 900)*	▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment	▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Included in the Operational Risks:			

<table>
<tr><th>Risk Category</th><th>Risk Definition</th><th>Risk Monitoring Process</th><th>Risk Management Tools</th></tr>
<tr><td>Reputational Risk (Customer Franchise Risk) Including Social Media Risk and AML Risk</td><td>Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion.
Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services.

Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats

Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:
1. Terrorist financing
2. Unlawful purposes
3. Transactions over certain amounts as defined by AMLC – Ant-Money Laundering Council</td><td rowspan="3">▪ Risk Identification
▪ Risk Measurement
▪ Risk Measurement
▪ Risk Evaluation (i.e. Analysis of Risk)
▪ Risk Management (i.e. Monitor, Control or Mitigate Risk)

Monitoring of Pillar II Risks fall under the purview of Operational Risk Management:
▪ Risk Identification – Risk Maps
▪ Risk Measurement and Analysis – ICAAP Risk Assessment

Major Factors considered:
▪ Products
▪ Technology
▪ People
▪ Policies and Processes
▪ Stakeholders (including customer and regulators)</td><td>▪ Account Closures Report
▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report
▪ Mystery Caller/Shopper
▪ Evaluation/ Risk Mitigation of negative media coverage
▪ Public Relations Campaign
▪ Review of Stock Price performance
▪ Fraud Management Program
▪ Social Media Management Framework
▪ Social Media Risk Management
▪ AML Compliance Review / Monitoring
▪ Enhanced Due Diligence Program for Customers</td></tr>
<tr><td>Strategic Business Risks</td><td>Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.</td><td>▪ Management Profitability Reports – Budgets vs Actuals
▪ Benchmarking vis-a-vis Industry, Peers
▪ Economic Forecasting
▪ Annual Strategic Planning Exercise</td></tr>
<tr><td>Cyber Security Risk /</td><td>Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the bank's digital footprint through (not limited to) the following:
• Breaches in data security
• Sabotage on online (web-based) activities (Ransomware, DDOS, etc.)
• Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc.)</td><td>▪ Incident Reporting Management
▪ Information Security Policy Formulation
▪ Risk Assessment
▪ Information Security Management System Implementation
▪ Continuous infosec / cyber risk awareness campaigns
▪ Network Security Protection
▪ Limits on Access Privileges
▪ Scanning of outbound and inbound digital traffic</td></tr>
</table>

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	• Scams and Frauds (Social engineering, identify thefts, email scams, etc.)		
Information Security / Data Privacy	Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others. Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of income, other financial loss, reputational damage, discrimination, and other harms.		• Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). • Enterprise–wide Implementation of the Information Security Management Systems • Education / InfoSec Awareness is also constantly conducted • Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks • Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements • Institutionalization of data protection culture within the group through regular awareness programs
Information Technology (including Core Banking Implementation)	Technology Risk result from human error, malicious intent, or even compliance regulations. It threatens assets and processes vital to the Bank's business and may prevent compliance with regulations, impact profitability, and damage your company's reputation in the marketplace. Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customer.	▪ Risk Identification ▪ Risk Measurement ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk)	▪ Risk Asset Register ▪ Risk Awareness Campaigns ▪ IT Risk Assessments ▪ Formal Project management Program adoption ▪ Vulnerability Assessment and Penetration Testing ▪ Maintenance and upgrades of disaster recovery sites ▪ Business Users / IT joint engagement for problem resolution ▪ Technology Operations Management Policies & Guidelines ▪ Vendor Management Process Monitoring

Regulatory Capital Requirements under BASEL II – Pillar 1 Capital Adequacy Ratio (in millions of Pesos)

The Bank's Capital Adequacy Ratio as of end of December 2019 stands at 14.80% on a consolidated basis while the Bank's Risk Weighted Assets (RWA) as of end 2018 amounted to P883,055 million composed of P747,874 million (Credit Risk Weighted Assets-CRWA), P80,683 million (Market Risk Weighted Assets-MRWA) and), P54,498 million (Operational Risk Weighted Assets-ORWA).

The Bank's total regulatory requirements for the four (4) quarters for 2019 are as follows:

Consolidated	**Weighted Exposures (Quarters 2019)**			
(Amounts in P million)	**As of Dec 31**	**As of Sept 30**	**As of June 30**	**As of Mar 31**
CRWA	747,874	735,604	690,032	672,696
MRWA	80,683	78,652	57,433	44,258
ORWA	54,498	54,498	54,498	63,581
Total Risk-Weighted Asset	**883,055**	**868,754**	**801,963**	**780,536**
Common Equity Tier 1 Ratio	14.10%	13.78%	13.23%	13.24%
Capital Conservation Buffer	8.10%	7.78%	7.23%	7.24%
Tier 1 Capital Ratio	14.10%	13.78%	13.23%	13.24%
Total Capital Adequacy Ratio	14.80%	14.58%	14.00%	13.99%

Presented below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as at December 31, 2019 attributable to the Parent Bank (amounts in Php thousands):

Accounts	**Balance in FRP**	**Accounting differences and other adjustments**	**Balance in audited financial statements**
Capital stock	61,030,594	–	61,030,594
Additional paid-in capital	32,106,560	–	32,106,560
Surplus reserves	642,018	–	642,018
Surplus	49,588,906	6,684,829	56,273,735
Net unrealized loss on Available-for-Sale investments	3,693,983	(443,332)	3,250,651
Remeasurement losses on retirement plan	(2,714,925)	485,705	(2,229,220)
Accumulated translation adjustment	306,640	640,922	947,562
Other equity reserves	433	35,033	35,466
Share in aggregate reserves on life insurance policies	–	12,280	12,280
Appraisal increment reserve	291,725	(291,725)	–
TOTAL	**144,945,934**	**7,123,712**	**152,069,646**

PHILIPPINE NATIONAL BANK
CAPITAL ADEQUACY RATIO (CONSOLIDATED AND PARENT)
(Amount in Million Philippine Peso)

		CONSOLIDATED			PARENT		
		2019	2018	2017	2019	2018	2017
A. Tier 1 Capital		**146,808.160**	**121,743.821**	**112,344.766**	**144,654.210**	**117,541.445**	**108,605.501**
A.1	**Common Equity Tier 1 (CET1) Capital (Sum of A.1(1) to A.1(13))**	**146,808.160**	**121,743.821**	**112,344.766**	**144,654.210**	**117,541.445**	**108,605.501**
For Domestic Banks and Subsidiaries of Foreign Banks							
1	Paid-up common stock	61,030.594	49,965.587	49,965.587	61,030.594	49,965.587	49,965.587
2	Common stock dividends distributable		0.000	0.000		0.000	0.000
3	Additional paid-in capital 1/	32,106.560	31,331.251	31,331.251	32,106.560	31,331.251	31,331.251
4	Deposit for common stock subscription		0.000	0.000		0.000	0.000
5	Retained earnings	48,834.775	40,887.356	32,797.185	50,230.924	40,372.749	32,335.706
6	Undivided profits 2/		0.000	0.000		0.000	0.000
7	Other comprehensive income (Sum of A.1(7)(i) to A.1(7)(v))	1,971.070	(3,335.230)	(4,358.337)	1,286.132	(4,128.142)	(5,027.043)
8	Minority interest in subsidiary banks which are less than wholly-owned 4/	2,865.161	2,894.857	2,609.080	0.000	0.000	0.000
Minus:							
A.2	**Regulatory Adjustments to CET1 Capital (Sum of A.2(1) to A.2(24))**	**22,303.458**	**22,109.521**	**23,401.420**	**47,960.191**	**46,665.494**	**47,409.153**
4	Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	1.746	1.332	1.816	1.746	1.332	1.816
5	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	936.851	781.715	2,264.464	936.851	781.715	2,264.464
6	Deferred tax assets 9/	1,580.935	1,502.846	1,500.565	975.749	974.086	974.243
7	Goodwill 10/	13,515.765	13,515.765	13,515.765	13,515.764	13,515.765	13,515.765
8	Other intangible assets 11/	2,793.597	2,978.650	2,740.423	2,717.965	2,893.346	2,651.754
11	Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable) 13/		0.000	0.000	26,170.384	25,014.086	24,457.074
12	Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable) 13/	673.263	433.669	526.689	840.431	589.619	692.339
14	Significant minority investments (10%-50% of of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases) 13/	2,799.368	2,893.612	2,849.765	2,799.368	2,893.612	2,849.765
17	Other equity investments in non-financial allied undertakings and non-allied undertakings	1.933	1.933	1.933	1.933	1.933	1.933
19	Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)		0.000	0.000		0.000	0.000
A.3	**TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)**	**124,504.702**	**99,634.300**	**88,943.346**	**96,694.019**	**70,875.952**	**61,196.348**
A.4	**Additional Tier 1 (AT1) Capital (Sum of A.4(1) to**		**0.000**	**0.000**		**0.000**	**0.000**
A.5	**Regulatory Adjustments to Additional Tier 1 (AT1)**		**0.000**	**0.000**		**0.000**	**0.000**
A.6	TOTAL ADDITIONAL TIER 1 CAPITAL		0.000	0.000		0.000	0.000
A.7	**TOTAL TIER 1 CAPITAL (Sum of A.3 and A.6)**	**124,504.702**	**99,634.300**	**88,943.346**	**96,694.019**	**70,875.952**	**61,196.348**
B. Tier 2 (T2) Capital							
B.1	**Tier 2 (T2) Capital (Sum of B.1(1) and B.1(6))**	**6,183.430**	**5,881.878**	**4,696.483**	**5,563.850**	**5,079.208**	**4,228.829**
For Domestic Banks							
1	Instruments issued by the bank that are eligible as Tier 2 capital 21/ (Sum of B.1(1)(i) and B.1(1)(ii))		0.000	0.000		0.000	0.000
	(i) Limited life preferred shares			0.000			0.000
	(ii) Other limited life capital instruments **(Unsecured Subordinated Debt was eligible until 31 Dec 2015 as BSP Memorandum No. M2013-008 dated 05 Mar 2013)**			0.000			0.000
2	Deposit for subscription of T2 capital			0.000			0.000
3	Appraisal increment reserve – bank premises, as authorized by the Monetary Board	291.725	291.725	291.725	291.725	291.725	291.725
4	General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	5,891.705	5,590.153	4,404.758	5,272.125	4,787.483	3,937.104
5	Minority interest in subsidiary banks which are less than wholly-owned 22/			0.000			0.000
For Philippine Branch of a Foreign Bank							
6	General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio			0.000			0.000
B.2	Regulatory Adjustments to Tier 2 capital (Sum B.2(1) to B.2(9))		0.000	0.000		0.000	0.000
B.3	TOTAL TIER 2 CAPITAL (B.1 minus B.2)	6,183.430	5,881.878	4,696.483	5,563.850	5,079.208	4,228.829
C. TOTAL QUALIFYING CAPITAL (Sum of A.7 and B.3)		**130,688.132**	**105,516.178**	**93,639.829**	**102,257.869**	**75,955.159**	**65,425.177**
	Total Risk Weighted On-Balance Sheet Assets	713,285.012	614,661.736	527,831.541	637,724.745	539,921.678	467,534.043
	20%	12,314.521	13,149.331	11,018.591	10,579.723	11,251.723	9,017.868
	50%	36,818.000	30,833.711	34,373.114	35,370.056	29,260.718	32,824.606
	75%	12,889.178	10,991.050	12,616.170	10,911.005	10,476.584	12,105.697
	100%	619,913.135	539,607.263	449,816.496	562,145.455	473,469.132	397,208.424
	150%	31,350.178	20,080.663	20,007.170	18,718.506	15,463.521	16,377.448
	Total Risk-Weighted Off-Balance Sheet Assets	31,434.903	34,165.730	23,936.175	30,837.756	34,022.330	23,880.982
	20%		0.000	26.308		0.000	26.308
	50%	1.413	6.310	33.584	1.412	6.310	33.584
	75%	472.274	1,137.038	0.000	472.274	1,137.038	0.000
	100%	30,961.216	33,022.382	23,876.283	30,364.070	32,878.982	23,821.090
	150%		0.000	0.000		0.000	0.000
	Total Counterparty Risk Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions) [Part III.3]	2,138.540	3,375.977	3,256.262	2,138.540	3,375.977	3,256.262
	Total Counterparty Risk Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions	1,015.547	870.251	801.313	992.716	839.720	763.321
	TOTAL CREDIT RISK WEIGHTED ASSETS	747,874.002	653,074.036	555,825.291	671,693.757	578,159.705	495,434.608
	Total Market Risk-Weighted Assets	80,682.636	33,709.206	9,880.165	79,128.298	33,564.159	9,909.562
	Total Operational Risk-Weighted Assets	54,498.369	48,549.404	44,400.786	46,126.919	41,364.568	38,428.181
	Total Risk Weighted Assets	**883,055.007**	**735,332.646**	**610,106.242**	**796,948.974**	**653,088.432**	**543,772.351**
	Capital Ratios						
	Common Equity Tier 1 Ratio	**14.10%**	**13.55%**	**14.58%**	**12.13%**	**10.85%**	**11.25%**
	Capital Conversion Buffer	**8.10%**	**7.55%**	**8.58%**	**6.13%**	**4.85%**	**5.25%**
	Tier 1 Capital Ratio	**14.10%**	**13.55%**	**14.58%**	**12.13%**	**10.85%**	**11.25%**
	Total Capital Adequacy Ratio	**14.80%**	**14.35%**	**15.35%**	**12.83%**	**11.63%**	**12.03%**

<u>Credit Risk-Weighted Assets as of December 31, 2019</u>

The Bank adopts the standardized approach in quantifying the risk-weighted assets. Credit risk exposures are risk weighted based on third party credit assessments of Fitch, Moody's, Standard & Poor's and Phil Ratings agencies. The ratings of these agencies are mapped in accordance with the BSP's standards. The following are the consolidated credit exposures of the Bank and the corresponding risk weights:

In P Millions	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	27,221	-	27,221	27,221	-	-	-	-	-
Due from BSP	107,653	-	107,653	107,653	-	-	-	-	-
Due from Other Banks	21,339	-	21,339	-	10,255	9,631	-	1,453	-
Financial Asset at FVPL	51	-	51	-	-	-	-	51	-
Available for Sale	4,377	-	4,377	135	2,846	26	-	1,370	-
Held to Maturity (HTM)	100,220	4,798	95,422	30,839	3,928	47,688	-	12,967	0
Unquoted Debt Securities	-	-	-	-	-	-	-	-	-
Loans & Receivables	666,254	13,553	652,700	1,469	44,543	16,292	17,186	561,730	11,481
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	2,519	-	2,519	2,519	-	-	-	-	-
Sales Contracts Receivable	5,672	-	5,672	-	-	-	-	5,112	561
Real & Other Properties Acquired	8,858	-	8,858	-	-	-	-	-	8,858
Other Assets	37,229	-	37,229	-	-	-	-	37,229	-
Total On-Balance Sheet Asset	981,394	18,352	963,043	169,835	61,573	73,636	17,186	619,913	20,900
Total Risk Weighted Asset - On-Balance Sheet	-	-	-	-	12,315	36,818	12,889	619,913	31,350
Total Risk Weighted Asset - Off-Balance Sheet Asset						1	472	30,961	-
Counterparty Risk Weighted Asset in Banking Book						2,138			
Counterparty Risk Weighted Asset in Trading Book				-	15	783		218	-

** Credit Risk Mitigants used are cash, guarantees and warrants.*

Market Risk-Weighted Assets as of December 31, 2019

The Bank's regulatory capital requirements for market risks of the trading portfolio are determined using the standardized approach ("TSA"). Under this approach, interest rate exposures are charged both for specific risks and general market risk. The general market risk charge for trading and FVOCI portfolio is calculated based on the instrument's coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30 days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years) while capital requirements for specific risk are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuer's credit rating. On the other hand, equities portfolio is charged 8% for both specific and general market risk while FX exposures are charged 8% for general market risks only.

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in P Million)	Capital Charge (a)	Adjusted Capital Charge (b) b= a*125% 1/	Market Risk Weighted Exposures (c) c= b*10 2/
Interest Rate Exposures	5,282.780	6,603.474	66,034.745
Specific Risk	1,860.590	2,325.738	23,257.377
General Market Risk	3,422.189	4,277.737	42,777.368
Equity Exposures	226.709	283.387	2,833.866
Foreign Exchange Exposures	945.122	1,181.403	11,814.025
Total	6,454.611	8,068.264	80,682.636

Notes:

1/ Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.

2/ Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

The following are the Bank's exposure with assigned market risk capital charge.

Interest Rate Exposures consist of specific risk and general market risk.

Specific Risk

Specific Risk which reflects the type of issuer of the combined portfolio of financial assets designated at Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) is P1,860.590 billion and is composed of securities with various tenors that are subjected to risk weight ranging from 0% to 8%. Sixty-five percent (65%) of these securities are issued by Republic of the Philippines (ROP) while 22% is attributable to debt securities rated AAA to BBB- issued by other entities. The remaining portfolio consists of all other debt securities that are issued by other entities. Thirty-six percent (36%) of this combined portfolio is composed of USD-denominated debt securities issued by the Philippines with applicable risk weight of 0.25% to 1.6%. On the other hand, the Bank's holding in peso denominated securities which are estimated at 29% of the portfolio have zero risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in P million)							
		Risk Weight					
	Positions	0.00%	0.25%	1.00%	1.60%	8.00%	Total
P-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	76,026.650					
	Short	-					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		1.521	1,370.103	14,180.599		
	Short						
Debt securities/derivatives with credit rating BBB- and above issued by other sovereigns	Long		721.800	132.830	7,721.384		
	Short						
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long		374.847	4,292.571	10,154.946		
	Short						
All other debt securities/derivatives that are below BBB- and unrated	Long					16,087.235	
	Short						
Subtotal	Long	76,026.650	1,098.169	5,795.504	32,056.929	16,087.235	-
	Short	-	-	-	-	-	-
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	2.745	57.955	512.911	1,286.979	1,860.590
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		-	2.745	57.955	512.911	1,286.979	1,860.590

General Market Risk – Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is P2,130.947 million. In terms of weighted positions, the greater portion (33%) of the Bank's capital charge comes from the Over 5 years to 7 years bucket at P697.147 million as well as Over 7 years to 10 years bucket (28%) at P586.190 million or a combined capital charge of P1,283.337 million. The remaining weighted positions (39%) are distributed over the remaining buckets.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in P million)							
	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives Total Individual Positions		Risk	Weighted Positions	
Zone	Coupon 3% or more	Coupon less than 3%	Long	Short	Weight	Long	Short
1	1 month or less	1 month or less	18,928.385	21,870.803	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	15,081.009	13,227.605	0.20%	30.162	26.455
	Over 3M to 6M	Over 3M to 6M	5,756.828	2,294.975	0.40%	23.027	9.180
	Over 6M to 12M	Over 6M to 12M	6,717.612	1,022.600	0.70%	47.023	7.158
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	5,021.669	-	1.25%	62.771	-
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	11,445.567	-	1.75%	200.297	-
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	327.809	-	2.25%	7.376	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	17,874.113	-	2.75%	491.538	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	21,450.671	-	3.25%	697.147	-
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	15,631.727	-	3.75%	586.190	-
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	527.416	-	4.50%	23.734	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	3.730	-	5.25%	0.196	-
	Over 20Y	Over 10.6Y to 12Y	-	-	6.00%	-	-
		Over 12Y to 20Y	-	-	8.00%	-	-
		Over 20Y	-	-	12.50%	-	-
Total			118,766.536	38,415.983		2,169.461	42.793
Overall Net Open Position							2,126.667
Vertical Disallowance							4.279
Horizontal Disallowance							-
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							2,130.947

General Market Risk – US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is P1,272.457 million. The exposure is concentrated under the Over 7 years to 10 years' time bucket with risk weight of 3.75% resulting in a capital charge of P381.080 million. The balance is distributed across other time buckets up to over 20 years with capital charge ranging from P3.225 million to P296.835 million

Currency: USD							
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)							
	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives Total Individual Positions		Risk Weight	Weighted Positions	
Zone	Coupon 3% or more	Coupon less than 3%	Long	Short		Long	Short
1	1 month or less	1 month or less	25,079.380	27,217.867	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	23,926.152	24,176.896	0.20%	47.852	48.354
	Over 3M to 6M	Over 3M to 6M	4,532.159	1,298.923	0.40%	18.129	5.196
	Over 6M to 12M	Over 6M to 12M	3,823.300	3,480.150	0.70%	26.763	24.361
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	5,301.101	-	1.25%	66.264	-
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	5,432.992	-	1.75%	95.077	-
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	10,384.266	-	2.25%	233.646	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	1,344.864	-	2.75%	36.984	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	8,188.259	5,219.052	3.25%	266.118	169.619
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	10,162.127	-	3.75%	381.080	-
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	513.546	-	4.50%	23.110	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	5,654.009	-	5.25%	296.835	-
	Over 20Y	Over 10.6Y to 12Y	53.756	-	6.00%	3.225	-
		Over 12Y to 20Y	-	-	8.00%	-	-
		Over 20Y	-	-	12.50%	-	-
Total			104,395.910	61,392.888		1,495.083	247.530
Overall Net Open Position							1,247.554
Vertical Disallowance							24.703
Horizontal Disallowance							0.201
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							1,272.457

General Market Risk – Third Currencies

The Bank is likewise exposed to various third currencies contracts most of them are in less than 30 days thus carries a 0% risk weight. The combined general market risk charge for contracts in Singapore Dollar (SGD), Hong Kong Dollar (HKD), and Euro (EUR) is P18.785 million with risk weight ranging from 0.20% and 0.40%.

PART IV.1d GENERAL MARKET RISK (Amounts in P million)										
		Total Debt Securities & Debt Derivatives/Interest Rate Derivatives			Weighted Positions					
Currency	Time Bands	Long	Short	Risk Weight	Long	Short	Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market Risk Capital Charge
AUD	1 month or less	-	3.531	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		**-**	**3.531**		-	-	-	-	-	-
SGD	1 month or less	-	76.333	0.00%	-	-				
	Over 1M to 3M	-	254.142	0.20%	-	0.508				
TOTAL		**-**	**330.475**		-	**0.508**	**0.508**	**-**	**-**	**0.508**
JPY	1 month or less	1,266.354	1,803.385	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		**1,266.354**	**1,803.385**		-	-	-	-	-	-
HKD	1 month or less	25.559	483.920	0.00%	-	-				
	Over 1M to 3M	-	407.896	0.20%	-	0.816				
	Over 3M to 6M	-	1,884.498	0.40%	-	7.538				
TOTAL		**25.559**	**2,776.314**		**-**	**8.354**	**8.354**	**-**	**-**	**8.354**
EUR	1 month or less	6,867.357	60.293	0.00%	-	-				
	Over 1M to 3M	6,226.852	1,405.754	0.20%	12.454	2.812				
TOTAL		**13,094.209**	**1,466.047**		**12.454**	**2.812**	**9.642**	**0.281**	**-**	**9.923**
GBP	1 month or less	-	165.232	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		**-**	**165.232**		-	-	-	-	-	-
CAD	1 month or less	-	58.161	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		**-**	**58.161**		-	-	-	-	-	-
TOTAL THIRD CURRENCIES										**18.785**

Equity Exposures

The Bank's holdings are in the form of common stocks traded in the Philippine Stock Exchange, with 8% risk weight both for specific and general market risk. The Bank's capital charge for equity weighted positions is P88.516 million or total risk-weighted equity exposures of P1,106.456 million.

Item	**Nature of Item**	**Positions**	**Stock Markets**
			Philippines
A.1	Common Stocks	Long	107.184
		Short	6.534
A.9	Others	Long	446.044
		Short	-
A.10	TOTAL	Long	553.228
		Short	6.534
B.	Gross (long plus short) positions (A.10)		559.762
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		44.781
E.	Net long or short positions		546.694
F.	Risk Weights		8%
G.	General market risk capital charges (E. times F.)		43.736
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)		88.516
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)		110.646
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)		1,106.456

Foreign Exchange Exposures

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of P11,814.025 million. This includes P9,494.063 million arising from exposure in Non-Deliverable Forwards (NDFs) which carries a 4% risk weight while P2,319.963 million is from Foreign Exchange Exposures with 8% risk weight in FX assets and FX liabilities in USD, and third currencies not limited to JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2019)						
	Closing Rate USD/P:					52.58
		In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
Nature of Item	Currency	1	2	3	4=1+2+3	5
Currency						
A.1 U.S. Dollar	USD	(46.082)	0.265		(45.817)	(2,319.963)
A.2 Japanese Yen	JPY	0.491	0.000		0.491	24.853
A.3 Swiss Franc	CHF	1.853	0.000		1.853	93.801
A.4 Pound Sterling	GBP	0.163	0.000		0.163	8.237
A.5 Euro	EUR	1.089	0.000		1.089	55.145
A.6 Canadian Dollar	CAD	0.301	0.000		0.301	15.236
A.7 Australian Dollar	AUD	0.571	0.000		0.571	28.911
A.8 Singapore Dollar	SGD	0.730	0.000		0.730	36.951
A.9 Foreign currencies not separately specified above		1.502			1.502	76.060
Arab Emirates Dirham	AED	0.008			0.008	
Bahrain Dinar	BHD	0.002			0.002	
Brunei Dollar	BND	0.004			0.004	
Yuan Renminbi	CNY	0.389			0.389	
Hongkong Dollar	HKD	0.414			0.414	
Korean Won	KRW	0.006			0.006	
Malaysian Ringgit	MYR	0.004			0.004	
Norwegian Krone	NOK	0.000			0.000	
New Zealand Dollar	NZD	0.119			0.119	
Saudi Riyal	SAR	0.543			0.543	
Thai Baht	THB	0.006			0.006	
Taiwan Dollar	TWD	0.009			0.009	
A. 10 Sum of net long positions						339.195
A.11 Sum of net short positions						(2,319.963)
B. Overall net open positions 1/						2,319.963
Risk Weight						8%
Total Capital Charge for Foreign Exchange Exposures (B. times C.)						185.597
Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)						231.996
Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						2,319.963

Operational Risk – Weighted Assets
The Bank uses the Basic Indicator Approach in quantifying the risk-weighted assets for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous three years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(Amounts in P Million) Consolidated as of December 31, 2019	Gross Income	Capital Requirement (15% x Gross Income)
2016 (Year 3)	25,096	3,764
2017 (Year 2)	28,699	4,305
2018 (Last Year)	33,403	5,010
Average for 3 Years		4,360
Adjusted Capital Charge	Average x 125%	5,450
Total Operational Risk Weighted Asset		54,498

Property Development

Competitor Risk
The Philippine real estate development industry is highly competitive with respect to township developments in Metro Manila and high rise condominiums.

Eton believes that it is a strong competitor in the mid- and high-end markets due to the quality of its products and materials used in construction and finishing. In addition, the Company believes that the prime locations of its developments allow it to effectively compete in the market. On the other hand, the Company has access, through its holdings and holdings of its affiliates, to one of the most extensive land banks in the Philippines, comprising properties strategically located in the prime areas of Metro Manila and its periphery.

Market Risk
Currently, majority of the Company's commercial spaces are leased-out to entities in the BPO industry. Should the country experience a slowdown in performance and growth of this sector of the economy, the Company is exposed to the risk of lower occupancy, reduction in rental rates and late or non-payment of rentals.

While forecast for the BPO industry remains bullish, the industry is sensitive to changes in government policies particularly with respect to the tax holidays it currently enjoys. Political uncertainty and peace and order problems may likewise affect the growth of this industry as experienced in the past. Despite this, the outlook for the BPO industry continues to be positive as the country remains to be one of top BPO destinations in the world.

The Company's residential sales on the other hand is exposed to the cyclical nature of the real estate industry. As seen in the past, the real estate industry has the tendency to expand and contract depending on the movement of interest rate and the confidence in the Philippine economy.

Regulatory Risk
The Company operates in a highly regulated environment and it is affected by the development and application of regulations in the Philippines. The development of condominium projects, subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirements to procure a variety of environmental and construction-related permits.

The Company closely monitors all government regulatory requirements and institute measures to strictly comply with them.
Credit Risk

The Company is exposed to credit risk from its leasing and residential sales. To manage the credit risk from residential sales, the Company has ceased to offer in-house financing to its buyers. Instead, buyers are encouraged to either pay in cash, avail of a deferred cash payment term or secure financing from banks to finance their property acquisition.

Credit risk from leasing, on the other hand, is minimal given the profile of the Company’s tenants. The terms of the Company’s leases are likewise structured to mitigate credit risks.

Financial Risk
Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect in the Company’s and its customers’ ability to obtain financing. Higher interest rates make it more expensive for the Company to borrow funds to finance its ongoing projects or to obtain financing for new projects. In addition, the Company’s access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by Bangko Sentral of the Philippines (BSP) on bank lending. These could materially and adversely affect the Company’s business, financial condition and results of operations.

In order to reduce its earnings volatility and diversify its revenue streams, the Company has targeted to derive approximately 35-40% of its revenues from recurring sources within the next five years, primarily through rentals from its BPO properties and retail malls. The Company believes this will complement the Company’s overall growth strategy by providing recurring cash flows to support its developmental capital expenditure requirements and driving demand for its master-planned community residential offerings.

Data Privacy Risk
Data Privacy Risk is an operational risk involving the possible unauthorized access, disclosure and/or destruction by the Company’s employees and consultants of sensitive personal information belonging to the Company’s clients, suppliers, consultants and employees. The Data Privacy Act of 2012 (Republic Act 10173) requires that due protection and caution must be employed by the Company in handling such sensitive personal information.

To manage this risk, the Company ensures that adequate physical, organizational, and system controls on processes involving the gathering, access, processing, storage and destruction of customers’ sensitive personal information are in place. Likewise, continuous improvement on the Company’s existing information security is implemented to prevent misuse of personal data. The culture of data protection is also institutionalized within the Company through continuous awareness programs and campaigns.

The Company has also appointed the Data Protection Officer (DPO) to strengthen management of risks relating to the confidentiality and integrity of customer information while ensuring compliance with Data Privacy Act of 2012 (Republic Act 10173). More details about the Eton Privacy Policy including DPO contact information is available in the company website at https://eton.com.ph/privacy-policy/.

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by TDI		
Quiapo, Manila	26,587	Office
Makati City	71	Investment/Condo
Talisay, Neg. Occ.	3,813	Bottle Storage
Davao City	3,000	Investment
Owned by AAC		
Pulupandan, Neg. Occ.	119,082	Distillation Plant
San Mateo, Rizal	11,401	Investment
Talisay, Batangas	139,299	Investment
Tanza, Cavite	53,156	Investment
Owned by ADI		
Ayala Ave., Makati City	89	Investment/Condo
Lian, Batangas	91,722	Distillation Plant

The following are the leased properties of TDI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Cabuyao, Laguna	Production Plant	170,887	2,155,881	2033
Pinamucan, Batangas	Land rental	18,522	367,500	2033
Calaca, Batangas	Tank rental		555,915	2033
Murcia, Neg. Occ.	Production Plant	51,448	322,615	2033
El Salvador, Mis. Or.	Production Plant	108,843	106,293	2033
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2029
	Totals	**399,700**	**3,588,204**	

Except for the Distillation Plant in Lian Batangas, all lease contracts have a term of fifteen years.

TDIs bottling plant and equipment are located in Cabuyao, Laguna, Murcia, Negros Occidental and El Salvador, Misamis Oriental. The plant equipment and storage facilities are all in good condition. TDIs land in Quiapo, Manila is presently mortgaged to PNB as collateral to TDIs credit line.

AACs distillery plant is located at Pulupandan, Negros Occidental. AAC owns the buildings, machinery and equipment and other structures in it. AAC also has alcohol, molasses and alcohol ageing storage, power generation and wastewater treatment facilities at Pulupandan. Office furniture and fixtures and office equipment are found in its offices in Bacolod and Pulupandan. Lands owned by AAC are located in

Pulupandan and Cebu. The Plant and equipment located in Negros plant and the storage facilities are all in good condition.

ADIs distillery plant is in Lian, Batangas. ADI has two distillation plants that produces ethyl alcohol. It also has a 100 kiloliters per day (KLPD) Dehydration Plant started its operation, that is composed of Classical Twin Bed Molecular Sieves which removes water from rectified spirit to produce bioethanol. Likewise, it has alcohol and molasses storage, power generation and wastewater treatment facilities. In 2015, a two (2) megawatt solar power generating facility was also put up in ADIs plant. All transportation equipment owned by ADI are in good condition. The land, building, and building improvements is under mortgage at Philippine National Bank.

Beverage

ABI and its subsidiaries own the following real estate properties:

Location	Area (sqm)	Present Use
Owned by ABI		
Bacoor, Cavite	459	Investment property
Cabuyao, Laguna	302	Investment property
Camarines Norte	3,215	Investment property
General Trias, Cavite	3,200	Investment property
Poblacion, Iloilo	3,782	Investment property
Owned by IPI		
Toril, Davao City	75,734	Production Plant

The following are the leased properties of ABI and its subsidiaries:

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by ABI				
Ayala Ave., Makati City	Head Office	1,677	1,067,092	August 2022
Cabuyao, Laguna	Production Plant	542,989	1,719,819	March 2021
El Salvador, Mis. Or.	Production Plant	1,063,103	250,278	December 2022
Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	661,500	December 2020
Leased by PWI				
Cabuyao, Laguna	Production Plant	82,600	560,581	December 2019
Leased by APBM				
Myanmar	Production Plant	9,318	US$22,938	March 2065
Myanmar	Warehouse	2,602	7,067	June 2020
Myanmar	Warehouse	2,007	6,930	November 2020
Myanmar	Staff House	372	3,831	February 2020

All lease contracts are renewable at the end of the lease term. In addition to monthly rentals, ABI pays Real Property Taxes on the El Salvador, Misamis Oriental Plant.

The plant and equipment are located at the following areas:

Location	Condition
Cabuyao plant	In good condition
El Salvador plant	In good condition
Davao plant	In good condition
Pampanga plant	In good condition
Myanmar	In good condition

Tobacco

The following comprises properties of FTC:

LOCATION	AREA (sq. m)	Present Use
Brgy. Punta, Calamba, Laguna	49,701	Investment
Bacoor, Cavite	132,294	Investment
Vito Cruz, Malate, Manila	5,085	Investment
Brgy. Niugan, Cabuyao, Laguna	469,758	Investment
Cabuyao, Laguna	17,438	Investment
Dna Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,626	Investment
Dna. Natividad, Quezon Ave., Quezon City	800	Investment
Dna. Natividad, Quezon Ave., Quezon City	1,118	Investment
Concepcion, Marikina	313	Investment
Tagdalit St., Brgy.Manresa, Quezon City	5,165	Warehouse Bldg.
Mandaue City	1,025	Investment
Baybay, Roxas City	2,396	Investment
Baybay, Roxas City	80	Investment
Filinvest Homes, Pagsanjan Cainta, Rizal	474	Investment
Marikina Greenheights, Brgy. Nangka	225	Investment
Antipolo, Rizal	400	Investment
Bo. Mayamot, Antipolo, Rizal	311	Investment
Pasay City	2,222	Investment

FTC leases its office located in Brgy. Kapitolyo, Pasig with a montly rental of P1,000,000 and lease contract will expire on December 31, 2019.

All properties are in good condition and are not covered by any existing mortagages, liens or encumbrances.

Banking

PNB's corporate headquarters, the PNB Financial Center, is housed in an eleven (11)-storey building located at a well-developed reclaimed area of 99,999 square meters of land on the southwest side of Roxas Boulevard, Pasay City, Metro Manila, bounded on the west side by the Pres. Diosdado P. Macapagal Boulevard and on the north side by the World Trade Center building. It also houses some of PNB's domestic subsidiaries. Some office spaces are presently leased to various companies/private offices. The said property is in good condition and has no liens and encumbrances.

Disclosed in Exhibit I is the list of Bank-owned properties as of December 31, 2019.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from one year up to 30 years based on original tenor and are renewable upon mutual agreement of both parties under certain terms and conditions.

Disclosed in Exhibit II is the list of Bank's branches that are under lease as of December 31, 2019.

The Bank does not have any current plans to acquire any property within the next twelve (12) months.

Information related to Property and Equipment is shown under Note 11 of the Audited Financial Statements of the Bank and Subsidiaries.

Property Development
The Company's investment properties consist of:

Description	Location
Buildings	Eton Centris, Quezon Ave., Cor. EDSA, Diliman, Quezon City; Eton Cyberpod Corinthian, Ortigas Ctr., Pasig City (land under lease agreement) WestEnd Square, Yakal St., cor. Malugay St., Makati City Eton Square Ortigas, Oritgas Avenue, San Juan City
Office condominium unit	6th Floor, Sagittarius Condominium, H. V. dela Costa Street, Salcedo Village, Makati City
Residential unit	Ocean Villa, Ternate, Cavite
Land	EDSA Cor. Quezon Avenue, Diliman, Quezon City; Meralco Avenue, Brgy. Ugong, Pasig City Emerald Ruby, Ortigas,Pasig City Roxas Blvd. Cor. Cuneta Avenue., San Rafael, Pasay City Corta Street, Addition Hills, San Juan, Metro Manila Brgy. Malitlit, Sta. Rosa City, Laguna, Mactan Island Cebu, Loyola Heights, Quezon City

The above properties are owned by the Company and are in good condition. These properties are not covered by any existing mortgage, liens or encumbrances except for the structures at Eton Cyberpod Corinthian and a portion of the land in Brgy. Malitlit, Sta. Rosa City, Laguna.

The Company also entered into a lease agreement with third parties for the lease of parcels of land located in Ortigas Center, Pasig City where one of the Company's projects is located. The annual rental expense recognized as part of the cost of rental income amounted to ₱39.4 million in 2019 and 2018.

The lease agreement shall be for a period of 20 years commencing on January 1, 2011 and renewable for another 20 years at the option of the lessee, with the lease payment subject to an annual escalation fee of 5%. Total annual rental payment amounted to ₱19.2 million in 2019 and ₱18.3 million in 2018.

In 2017, the Company also entered into a lease agreement with third parties for the lease of parcels of land located in Ortigas Avenue, San Juan City where one of the Company's projects is located. The annual rental expense recognized as part of the cost of rental income amounted to ₱9.9 million.

The lease agreement shall be for a period of 15 years commencing on June 1, 2017 and renewable at the sole option of the lessor, with the lease payment subject to an annual escalation fee of 5%. The Company was given a total of fifteen (15) months' rent-free period starting June 1, 2017 to August 2018. Total annual rental payment amounted to ₱6.6 million in 2019 and ₱3.2 million in 2018.

The Company's real estate properties consist of :

ETON PROPERTIES PHILIPPINES, INC.	
Eton Baypark Manila	*Corner Roxas Boulevard and Kalaw Street, Manila City*
Eton Parkview Greenbelt	*Gamboa St., Greenbelt, Makati City*
Eton Residences Greenbelt	*Legaspi St., Greenbelt, Makati City*
Eton Emerald Lofts	*Corner of Emerald Avenue, Sapphire and Garnet Streets, Ortigas Center, Pasig City*
One Archers Place	*Taft Avenue beside De La Salle University, Manila City*
68 Roces	*Don Alejandro Roces Avenue, Quezon City*
Belton Place	*Yakal St., cor. Malugay St., Makati City*
8 Adriatico	*Pedro Gil corner Bocobo Extension, Manila City*
Eton Tower Makati	*Corner Dela Rosa and V.A. Rufino Streets (formerly Herrera Street) in Legazpi Village, Makati City*
Tierrabela	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Land	*Manggahan, Pasig City*

BELTON COMMUNITIES, INC.	
NBC Manors	*Quirino Highway, Quezon City*
West Wing Residences @ Eton City	*Eton City, Sta. Rosa, Laguna*
West Wing Residences @ NBC	*Quirino Highway, Quezon City*
West Wing Villas @ NBC	*Quirino Highway, Quezon City*

ETON CITY INC.	
South Lake Village	*Sta. Rosa, Laguna*
Riverbend	*Sta. Rosa, Laguna*
Tierrabela	*Sta. Rosa, Laguna*
Village Walk	*Sta. Rosa, Laguna*
Land	*Sta. Rosa, Laguna*

Eton Emerald Lofts, NBC Manors and West Wing Residences at NBC are under a joint venture arrangement with the Company as the project developer. The Company acts as both land owner and developer with respect to its other developments. All properties listed above are in good condition and are not covered by any mortgage, liens or encumbrances except for certain undeveloped land located in Sta. Rosa, Laguna and an office building in EDSA corner Ortigas Avenue, Quezon City are used as collateral for a loan secured from Philippine National Bank.

The Company's property and equipment, which consist of transportation equipment, furniture, fixtures and equipment, and leasehold improvements, are mainly used in operations and are located in the main office in Allied Bank Center, 6754 Ayala Avenue, Makati City, Metro Manila, Philippines.

Currently, the Company has a renewable cancellable lease agreement with PNB, which generally provides for a fixed monthly rent for the Company's office spaces. The Company has determined that all significant risks and rewards of ownership of these properties are retained by PNB as lessor. Thus, the Company considers these lease agreements as operating leases. Rental expense recognized by the Company included under "Outside services" amounted to ₱17.9 million and ₱17.5 million in 2019 and 2018.

In 2018, the term of the lease was renewed for five years commencing on March 1, 2018 and will expire on February 28, 2023. The renewal of the lease shall be upon approval of the bank.

Item 3. Legal Proceedings

Distilled Spirits

In the ordinary course of business, TDI is contingently liable for lawsuits and claims, which are either pending with the courts or are being contested, the outcomes of which are not presently determinable. In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits and claims, if any, would not have a material or adverse effect on the Group's financial position and results of operations.

Trademark Infringement Suit

To date, the pending legal proceedings to which TDI is a party thereto is the ₱100 million civil infringementsuit filed against TDI last August 2003 by Ginebra San Miguel, Inc. (GSMI) for the launching of Ginebra Kapitan, a gin product that allegedly has a "confusing similarity" with GSMI's principal gin product. On September 23, 2003, the Mandaluyong Regional Trial Court (RTC) issued a TRO preventing TDI from manufacturing, selling and advertising Ginebra Kapitan.

On November 11, 2003, the Court of Appeals issued a 60-day TRO versus the Mandaluyong RTC, effectively allowing TDI to resume making and selling Ginebra Kapitan. The Court of Appeals however subsequently affirmed the Mandaluyong RTC TRO on January 9, 2004. On January 28, 2004, the Company filed a motion for reconsideration with the Court of Appeals. The Court of Appeals denied the TDI motion for reconsideration on July 2, 2004. On December 28, 2004, TDI then filed a petition for review on certiorari before the Supreme Court. On August 17, 2009, the Supreme Court reversed the decision of the Court of Appeals and nullified the writ of preliminary injunction issued by the Mandaluyong RTC. GSMI filed a motion for reconsideration but the Supreme Court denied the GSMIs motion with finality on November 25, 2009.

On July 25, 2012, the Mandaluyong RTC issued its decision in favor of TDI and dismissing the instant complaint for trademark infringement and unfair competition for lack of merit. GSMI filed a Motion for Reconsideration with the Mandaluyong RTC on September 3, 2012. On October 5, 2012, the Mandaluyong RTC denied the Motion for Reconsideration of GSMI. GSMI filed an appeal with the Court of Appeals (CA). On August 15, 2013, the CA rendered a decision in favor of GSMI ordering TDI to recall all gin products bearing the Ginebra brand name, cease and desist from using GINEBRA in any of its gin products, pay GSMI 50% of the gross sales of GINEBRA KAPITAN and ₱2 million as exemplary fees. TDI filed its appeal on October 18, 2013. On November 22, 2013, the CA sustained its decision in favor of GSMI.

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. In 2014, the Company filed a motion for reconsideration with the Court of Appeals. But such motion was denied. On September 29, 2015 the Company filed another petition for review before the Supreme Court. The Company is currently waiting for the Supreme Court's resolution as of December 31, 2019.

Opposition to Registration of Brand Name

On August 9, 2006, GSMI also filed an opposition to TDIs application for registration of the brand name Ginebra Kapitan with the Intellectual Property Office (IPO). The Bureau of Legal Affairs (BLA) of the IPO ruled on April 23, 2008 that the word “GINEBRA” is a generic term that is not capable of exclusive appropriation. The decision paved the way for the registration with the IPO of TDI’s brand name “GINEBRA KAPITAN”. GSMI sought for the reconsideration of this April 23, 2008 Decision of the BLA, which motion was however denied in a Resolution dated March 4, 2009. From this denial, GSMI filed an appeal memorandum with the Office of the Director General of the IPO raising as an issue, among others, the damage it would sustain with the registration of the mark GINEBRA KAPITAN.

On September 24, 2013, the Office of the Director General of IPO promulgated a Decision affirming the ruling of the BLA of the IPO, which in effect gave due course to the application that was filed by TDI for the registration of the aforesaid brand name. GSMI thereafter filed a Petition for Review with the Court of Appeals, seeking for the reversal of said September 24, 2013 Decision.

On July 23, 2014, the Court of Appeals (13th Division) granted the petition of GSMI, consequently reversing and setting aside the Decision of the Office of the Director General of the IPO.

On August 22, 2014, TDI filed a Motion for Reconsideration with the Court of Appeals. On November 13, 2014, the Court of Appeals sustained its decision dated July 23, 2014. On December 12, 2014, TDI filed a Petition for Review with the Supreme Court to reverse the decision of Court of Appeals and reinstate the findings of IPO. TDI is currently awaiting Supreme Court’s decision as of December 31, 2019.

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2019, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Tobacco

Sandiganbayan case against Tan Companies

On June 6, 2011, a motion was submitted by the Government seeking to include PMFTC and its directors/officers as additional defendants in the forfeiture case pending before the Sandiganbayan against Mr. Lucio C. Tan, FTC, et al. since 1987. The Government claims that by transferring the assets owned by FTC to PMFTC as a result of the business combination, the FTC assets have been removed beyond the reach of the Government and the court. The Sandiganbayan denied this motion with finality on August 2011, ruling that they are not necessary or indispensable parties under the law. In a decision in June 2012, the Sandiganbayan also dismissed the forfeiture case against all the defendants for failure of the Government to prove that the assets that formed the subject of the case were ill-gotten wealth. The Government’s motion for reconsideration was likewise denied in September 2012. On October 29, 2014, FTC received a resolution from the Supreme Court requiring it to submit its memorandum which was subsequently filed on January 30, 2015.

Banking

The Bank is a party to various legal proceedings which arise in the ordinary course of its operations.The Bank and its legal counsel believe that any losses arising from these contingencies, which are not specifically provided for, will not have a material adverse effect on the Consolidated Financial Statements.

Property Development

Kingston Tuscani, et al. vs. Paramount Holdings and Eton Properties
The Company is one of the appellees in CA G.R. No. CV-106191 entitled "Kingston Tuscani Enterprise & Development Corporation, Cristeta Babaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc." Said case was originally filed by Kingston Tuscani with the Regional Trial Court of Quezon City on March 23, 2010.

The case involves the Company's property in Quezon City covered by Transfer Certificate of Title (TCT) No. 62821 located at the corner of EDSA and Quezon Avenue, Quezon City. The plaintiffs seek the annulment of the Company's title alleging that it overlaps with TCT No. 300828. Plaintiffs also allege that the signature of the then Register of Deeds on the Company's title is a forgery.

In its Answer, the defendants, including the Company raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at ₱1.03 billion and which sale was approved by the then President of the Philippines. Further, there is no adverse claim or notice of lis pendens, encumbrance, or annotation of any overlapping claim on the Company's title. Based on an investigation conducted into the plaintiffs' title, it appeared that the technical descriptions of TCT No. 300828 overlap several titled properties when plotted. It was also found by the NBI that plaintiff's title was not regularly issued and, upon further examination, the technical description overlaps other titled properties located in Aurora Boulevard and Manga Street, among others, which are not the same as the location of the Company's property.

Additionally, defendants challenged the standing of the plaintiffs as not being the real parties in interest and subsequently requested the Court for a hearing on its affirmative defenses raised in its Motion to Dismiss. After due hearing, the Court, on December 14, 2014 issued a Resolution dismissing the complaint against the Company. The plaintiffs filed a Motion for Reconsideration which was denied by the Court on October 13, 2015. Thereafter the plaintiffs, on November 11, 2015 appealed the case to the Court of Appeals.

On January 18, 2018, the Court of Appeals rendered a decision in favor of Paramount and the Company, denying the appeal of the plaintiffs for lack of merit.

Kingston Tuscani subsequently filed a petition for review with the Supreme Court. On August 15, 2018, the Supreme Court's First Division issued a Resolution denying the petition for failure to show reversible error in the challenged decision so as to warrant the exercise of the Court's appellate jurisdiction. Kingston Tuscani thereafter filed a Motion for Reconsideration which the Supreme Court denied with finality on March 25, 2019.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Market Price of and Dividends on Registrant's Common Equity and Related Stockholder Matters.

1. Market Information

The principal market for the registrant's common equity is the Philippine Stock Exchange.

STOCK PRICES	**CLOSE**	**HIGH**	**LOW**
2017			
1st Quarter	16.02	17.00	12.00
2nd Quarter	14.70	16.98	14.42
3rd Quarter	17.58	18.90	14.78
4th Quarter	18.74	19.70	16.98
2018			
1st Quarter	18.80	25.30	18.34
2nd Quarter	18.08	22.15	17.90
3rd Quarter	14.40	18.64	14.40
4th Quarter	16.60	17.60	12.78
2019			
1st Quarter	16.10	17.60	14.60
2nd Quarter	15.20	17.20	14.68
3rd Quarter	13.94	16.40	13.40
4th Quarter	11.98	14.40	11.00
2020			
March 16, 2020*	6.45	7.13	6.00

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2019 was 375. Common shares outstanding as of December 31, 2019 were 10,821,388,889. The top 20 stockholders as of December 31, 2019 are as follows:

Stockholders' Name	No. of Common Shares Held	% to Total
Tangent Holdings Corp.	8,046,318,193	74.3557
PCD Nominee Corporation (Non-Filipino)	1,305,155,244	12.0609
PCD Nominee Corporation (Filipino)	708,319,962	6.5456
Dragon Castle Holdings Ltd.	198,535,900	1.8347
Hinner Resources Ltd.	157,195,600	1.4526
Advance Goal Ltd.	152,812,600	1.4121
Absolute Classic Ltd.	95,811,000	0.8854
Conqueror Vision Ltd.	81,913,000	0.7570
Conway Equities, Inc.	35,000,000	0.3234
Pan Asia Securities Corp.	24,448,000	0.2259
Goldlabel Equities Corp.	5,039,800	0.0466
All Seasons Realty Corp.	4,974,794	0.0460

Dragonstar Management Corp.	1,773,900	0.0164
Kentron Holdings & Equities Corp.	569,800	0.0053
Luys Securities Co., Inc.	501,000	0.0046
Mandarin Securities Corp.	358,000	0.0033
Atlas Agricultural & Mercantile & Dev.	299,475	0.0028
Honorio Poblador Jr.	295,230	0.0027
Donald J.D. Nye	272,250	0.0025
Alex M. Tiongco	83,600	0.0008

***** LTG has no preferred shares.

3. Dividends

a.) Dividend declarations

On March 14, 2017, the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.18 per share to all stockholders of record as of March 29, 2017. The dividends were paid on April 7, 2017.

On March 13, 2018, the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.20 per share to all stockholders of record as of March 28, 2018. The dividends were paid on April 11, 2018.

On April 10, 2019, the BOD of LTG approved the declaration and distribution of regular cash dividend of ₱0.15 per share and special cash dividend of ₱0.15 per share to all stockholders of record as of April 29, 2019. The dividends were paid on May 8, 2019.

b.) Restrictions that limit the ability to pay dividends on common equity or that are likely to happen in the future.

a. "To declare dividends out of the surplus profits when such profit shall, in the opinion of the directors, warrant the same." (par. 3, Article V (Duties of directors, Amended By-Laws).

b. " In lieu of closing the stock transfer book of the Corporation, The Board of Directors may fix in advance an appropriate date consistent with the relevant regulations as may have been issued by the Securities and Exchange Commission and/or the Philippine Stock Exchange, preceding the date of any annual or special meeting of the stockholders or the date for the allotment or rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, as record date for the determination of the stockholders entitled to vote, to notice at any such meeting and adjournment thereof, or to any such allotment of rights, or to give such consent, as the case may be notwithstanding any transfer of any stock on the books of the Corporation after such record date fixed as aforesaid, provided, however, that for purposes of declaring dividends, The Board of Directors may fix in advance a date to be determined in accordance with law, for the payment or distribution of such dividend as a record date for the determination of stockholders entitled to such dividend."(par C, Article XIX(Transfer of Stock, Amended By-Laws).

4. Recent Sales of Unregistered Securities (For the Past Three Years)

There was no recorded sale of unregistered securities during the past three years.

ITEM 6. Management's Discussion and Analysis or Plan of Operation

RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2019, 2018 and 2017 included in this report.

2019 vs 2018

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2019	2018
Revenues	₱94,244	₱75,630
Cost of Sales	46,803	35,965
Equity in Net Earnings of Associates and Joint Ventures	14,813	7,967
Operating Expenses	35,732	32,510
Operating Income	26,522	15,121
Other income-net	4,741	10,230
Income Before Income Tax	31,263	25,351
Total Net Income	27,566	20,558
Net Income Attributable to Equity Holders of the Parent Company	23,118	16,195

LT Group, Inc. (LTG) reported a consolidated net income attributable to equity holders of ₱23.1 billion for the year ended December 31, 2019, 42.7% higher than the ₱16.2 billion recorded for the same period last year. This was on account of the improvement in the operating results of the tobacco, banking and property development segments, which more than offset the lower net income of the distilled spirits and beverage segments. The tobacco segment's net income increased by ₱6.8 billion from ₱8.8 billion in 2018 to ₱15.6 billion in 2019. The banking segment's net income improved by 1.6% from ₱9.8 billion for 2018 to ₱9.9 billion in 2019 on account of the recorded increase in the bank's core income comprising primarily of net interest income and net service fees and commission. Property development segment's net income was ₱900 million, 87.9% higher than the ₱479 million in 2018. Distilled spirits segment's net income was ₱676 million, 25.6% less than the ₱909 million recognized for the period ended December 31, 2018. The beverage segment's net income decreased to ₱398 million in the current period from ₱421 million in 2018. Equitized earnings from the 30.9% owned VMC contributed ₱251 million in the current period compared to ₱247 million in the same period last year.

Consolidated revenues amounted to ₱94.2 billion for the year ended December 31, 2019, 24.6% more than the ₱75.6 billion recognized in 2018 as banking, beverage and distilled spirits increased.

Cost of sales and services increased by 30.1% from ₱36.0 billion for 2018 to ₱46.8 billion in 2019, primarily attributable to higher interest expense incurred in deposit liabilities and increased cost of sales of the distilled spirits and beverage segments due to higher volume and raw materials cost.

Operating expenses amounted to ₱35.7 billion in 2019 from ₱32.5 billion in 2018 or an increase of 9.9%. This was as a result of increased general and administrative expenses by 9.8%, from ₱29.8 billion in 2018 to ₱32.7 billion in 2019 and higher selling expenses by 11.5%.

SEGMENT OPERATIONS

Tobacco

The tobacco segment's net income was ₱15.6 billion for the year ended December 31, 2019, significantly higher than the ₱8.8 billion for the same period last year on account of the increase in equity in net earnings from PMFTC (49.6% owned associate) from ₱8.5 billion last year to ₱15.4 billion in 2019. PMFTC's income increased due to favorable mix with premium Marlboro accounting for a higher portion of sales volume and price increases implemented in late August 2019.

Banking

The banking segment's net income was ₱9.9 billion for the year ended December 31, 2019 higher than the ₱9.8 billion recorded for the same period in 2018.

Interest income from banking operations was at ₱50.6 billion in 2019, 40.3% higher than the ₱36.1 billion earned last year, mainly on account of the expansion in loans, interbank loans and trading and investment securities portfolios. Interest expense was at ₱18.2 billion for the period ended December 31, 2019, up 101.5% from ₱9.0 billion in same period of 2018 primarily due to growth in deposit liabilities and other borrowings resulting to a net interest income of ₱32.5 billion, 19.9% higher year-on-year.

Net service fees and commission income improved from the previous period's ₱3.5 billion to ₱4.2 billion in the current period driven by the growth in deposit and credit card related fees.

Trading and investment securities and net foreign exchange gains were higher at ₱2.2 billion in 2019 compared to 2018's ₱1.1 billion. On the other hand, miscellaneous income decreased by 62.8% to ₱3.2 billion from ₱8.6 billion, due to lower gain from the sale of ROPA.

Operating expenses increased by 10.5% as growth in revenues particularly in interest income and trading gains translated to higher business taxes and other related administrative expenses.

Property Development

The property development segment reported a net income of ₱900 million for the year 2019, 87.9% greater than the ₱479 million for the same period last year.

Leasing revenues in 2019 accounted for ₱1.7 billion or 54.5% of revenues, representing a 14.2% increase compared to 2018, as lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space at Eton Square Ortigas that was completed in 2018. Real estate sales were 16.4% lower y-o-y to ₱1.4 billion, but gross profit margin improved to 53% from 29%.

Operating expenses were slightly lower at ₱919 million in 2019 compared to 2018's ₱947 million.

Distilled Spirits

The distilled spirits segment posted a net income of ₱676 million for the year ended December 31, 2019, lower than the net income of ₱909 million reported in the same period last year.

Net revenues were higher by 6.3% y-o-y to ₱19.3 billion in 2019 mainly due to the improvement in liquor and bioethanol revenues.

Cost of sales increased by 8.2% to ₱16.1 billion in the current period as against ₱14.8 billion in 2018 primarily due to higher volume and raw material costs. Gross profit margin was lower at 16.7% in the current period compared to 18.1% last year.

Operating expenses were higher at ₱2.2 billion in 2019 from ₱2.1 billion in 2018, due to higher advertising, repairs and maintenance and other administrative expenses.

Beverage

The beverage segment's net income was lower by 5.5% to ₱398 million for the year ended December 31, 2019 from ₱421 million in the same period last year.

Revenues of the beverage segment were higher by 5.5% to ₱15.9 billion in 2019 from ₱15.1 billion in 2018. This was driven by the growth in revenues in energy drinks, bottled water and soymilk. Overall gross profit margin was flat at 27%.

Operating expenses increased by 9.5% to ₱2.6 billion in 2019 from ₱2.4 billion in 2018 on account of higher advertising, personnel, outside services, selling materials and freight and handling expenses.

2018 vs 2017

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2018	2017
Revenues	₱75,630	₱64,012
Cost of Sales	35,965	29,680
Equity in Net Earnings of Associates and Joint Ventures	7,967	3,964
Operating Expenses	32,510	27,277
Operating Income	15,121	11,018
Other income-net	10,230	7,060
Income Before Income Tax	25,351	18,078
Total Net Income	20,558	14,581
Net Income Attributable to Equity Holders of the Parent Company	16,195	10,831

LT Group, Inc. (LTG) recorded a consolidated net income of ₱20.6 billion for the year ended December 31, 2018, 41.0% higher than the ₱14.6 billion reported in 2017.

The consolidated net income attributable to equity holders of LTG was ₱16.2 billion for the year 2018, 49.5% more than 2017. This was on account of the improvement in the operating results of the tobacco, banking, distilled spirits and property development segments, which more than offset the lower net income of the beverage segment. The tobacco segment's net income increased by 100.0% from ₱4.4 billion in 2017 to ₱8.8 billion in 2018. The banking segment's net income was up by 14.3% from ₱8.6 billion for the year 2017 to ₱9.8 billion in 2018. Distilled spirits segment's 2018 net income was ₱909 million, 44.1% higher than the ₱631 million recognized for the year ended December 31, 2017. Property development segment's net income was ₱479 million in 2018, 37.6% higher than the ₱348 million in 2017. The beverage segment's net income of ₱421 million in 2018 was lower by 23.7% compared to the reported income of ₱552 million in 2017. Equity in net earnings from the 30.9% stake in VMC contributed ₱247 million.

Consolidated revenues amounted to ₱75.6 billion for the year ended December 31, 2018, 18.2% higher than the ₱64.0 billion recognized in 2017 on account of the increased revenues in the banking, distilled spirits, beverage and property development segments.

Cost of sales and services increased by 21.2% from ₱29.7 billion for the year ended December 31, 2017 to ₱36.0 billion in the same period in 2018, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the beverage and distilled spirits segments mainly due to the sugar tax imposed starting 2018 and higher raw material costs.

Operating expenses amounted to ₱32.5 billion in 2018 from ₱27.3 billion in 2017 or an increase of 19.2%. This was as a result of increased general and administrative expenses by 21.3%, from ₱24.6 billion in 2017 to ₱29.8 billion in 2018 and increase of 0.3% year-on-year in selling expenses.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱9.8 billion for the year ended December 31, 2018, 14.3% higher than the ₱8.6 billion recorded for the year 2017.

Interest income from banking operations was at ₱36.0 billion in 2018, 30.6% higher than the ₱27.6 billion earned last year, mainly on account of higher interest income from loans, investment securities and interbank loans receivables as well as the improvement of Net Interest Margin (NIM) to 3.2% from 3.1%. Interest expense was at ₱9.0 billion for the year ended December 31, 2018, up 62.3% from ₱5.6 billion in same period of 2017 resulting to a net interest income of ₱27.0 billion, 22.7% higher year-on-year.

Net service fees and commission income improved from 2017's ₱3.2 billion to ₱3.5 billion in 2018 due to higher deposit, credit, interchange and bancassurance fees income.

Miscellaneous income increased by 34.9% to ₱8.6 billion from ₱6.4 billion, due to higher gain from the sale of Real and Other Properties Acquired (ROPA). On the other hand, trading and net foreign exchange gains were lower at ₱1.1 billion in 2018 compared to 2017's ₱2.2 billion.

Operating expenses increased by 16.5% primarily due to higher provisioning on loans, taxes and licenses, depreciation, occupancy, personnel costs and miscellaneous expenses.

Beverage

The beverage segment's net income of ₱421 million for the year ended December 31, 2018 was lower by 23.7% against ₱552 million in 2017.

Revenues of the beverage segment were higher by 8.7% to ₱15.1 billion in 2018 from ₱13.9 billion in 2017. This was driven by the growth in revenues in packaging, energy drinks, bottled water and soymilk. Overall gross profit margin declined to 27.2% from 31.0% as a result of product mix, higher purchase price of raw materials, fuel and oil as well as the excise tax on sweetened beverages.

Operating expenses were flat at ₱2.4 billion for the years 2018 and 2017.

Distilled Spirits

The distilled spirits segment posted a net income of ₱909 million for the year ended December 31, 2018, a 44.1% increase from the net income of ₱631 million reported in 2017.

Net revenues of ₱18.1 billion in 2018 were higher by 8.0% y-o-y mainly due to the improvement in sales of Tanduay Five Years rum, the Company's flagship product, and bioethanol revenues.

Cost of sales increased by 5.5% to ₱14.8 billion in 2018 as against ₱14.1 billion in 2017 primarily due to higher volume, raw material costs and depreciation. Gross profit margin was at 18.1% in 2018, higher than the 16.2% in 2017.

Operating expenses were higher by ₱214 million at ₱2.1 billion in 2018, due to increased selling and administrative expenses.

Property Development

The property development segment reported a net income of ₱479 million for the year 2018, 37.6% higher than the ₱348 million for the year 2017.

Real estate sales of ₱1.7 billion were 101.7% higher y-o-y and comprised 53.3% of revenues. Rental revenue for the year 2018 accounted for ₱1.5 billion or 46.7% of revenues, representing a 7.7% growth over the same period in 2017, as lease contracts were renewed at higher rates for the BPO offices as well as the additional retail space completed in December 2017.

Operating expenses were higher by 29.5% from ₱732 million in 2017 to ₱948 million in 2018.

Tobacco

The tobacco segment's net income was ₱8.8 billion for the year ended December 31, 2018, significantly higher than the ₱4.4 billion in 2017 on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from ₱8.5 billion in 2017 to ₱4.4 billion in 2018.

FINANCIAL CONDITION

2019

The Company's consolidated Total Assets as of December 31, 2019 and December 31, 2018 amounted to ₱1.3 trillion and ₱1.1 trillion, respectively. Current Assets increased by 15.0% or ₱68.8 billion and Noncurrent Assets were higher by ₱99.3 billion or 15.5%.

The increase in consolidated Current Assets by 15.0% from ₱458.4 billion as of December 31, 2018 to ₱527.1 billion was primarily due to higher Cash and Cash Equivalents level from ₱177.0 billion as of end-2018 to ₱184.9 billion as of December 31, 2019 on account of higher deposits received, Loans and Receivables – Current Portion of the banking segment. Current portion of Loans and Receivables was greater than end-2018 level by 24.2% at ₱260.9 billion as the banking segment was able to lend out more corporate loans in 2019. Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) and Financial Assets at Fair Value through Profit or Loss increased due to acquisitions during the year and favorable hike in the fair values of the various investment portfolio. Inventories as of December 31, 2019 amounted to ₱12.2 billion, 7.0% lower than end-2018 due to lower ending inventory levels of the property development and distilled spirits segments. Other Current Assets amounted to ₱11.4 billion as of December 31, 2019, 8.6% increase from ₱10.5 billion as of December 31, 2018.

The 15.5% increase in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables and Financial Assets at FVTOCI. Noncurrent portion of Loans and Receivables were higher by ₱22.6 billion due to the growth in booked loans by the banking segment. Financial Assets at FVTOCI were higher by ₱62.4 billion on account of acquisitions of various investment securities made as of December 31, 2019. Investments in associates and joint ventures increased by 34.2% on account of equitized earnings recorded for the year ended December 2019. Property, plant and equipment – at cost was higher by ₱4.3 billion due to various acquisitions during the year 2019 and recognition of Right of Use of Assets. Investment properties were higher by 7.6% due to various acquisitions during the year 2019. Deferred income tax assets were higher by 24.0% on account of adjustments on temporary tax differences recorded in 2019. Other noncurrent assets were higher by ₱1.1 billion, from ₱6.4 billion as of end-2018 to ₱7.5 billion as of December 31, 2019.

Consolidated Total Liabilities increased by 16.8% to ₱1.0 trillion as of December 31, 2019 from ₱866.6 billion as of December 31, 2018. This was on account of the increase in Total Current Liabilities by 13.0% from ₱775.8 billion in December 31, 2018 to ₱876.7 billion as of the end of the current period and increase in Noncurrent Liabilities of 48.9% from ₱90.8 billion to ₱135.2 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱772.1 billion as of December 31, 2019, 14.8% higher than end-2018 balance. Accounts Payable and Accrued Expenses increased to ₱26.7 billion or 17.5% higher than ₱22.7 billion as of December 31, 2018 due to the various accruals in 2019. Short-term debts as of December 31, 2019 amounted to ₱5.2 billion, 151.2% higher than end-2018 on account of availments by the beverage segment and parent company. Current portion of long-term debts outstanding of ₱91 million as of December 31, 2018 increased to ₱1.0 billion as of December 31, 2019 due to reclassification from noncurrent to current for the nearly maturing debt and recognition of current portion of lease liability along with the recording of the right of use of asset account for the adoption of PFRS 16 - Leases. Other current liabilities increased from ₱16.5 billion as of end-2018 to ₱18.8 billion in current period due to additional accrual of transactions during the year 2019. Current portion of Bills and Acceptances Payable decreased by 14.4% due to settlement of interbank loans from the BSP and local banks. Current Financial Liabilities at Fair Value through Profit or Loss were lower by 47.8% to ₱246 million as of end-2019. Income tax payable was lower by 31.8% versus the December 31, 2018 level due to the income tax payments made in the current period. Current portion of Due to related parties decreased from ₱80 million to ₱65 million as payments were made in 2019.

The increase in the Noncurrent Liabilities was on account of the higher Long-Term debts net of current portion of the banking segment by ₱53.0 billion as of December 31, 2019, as the bank issued fixed-rate bonds and Euro Medium Term Notes (EMTN) partially offset by Noncurrent Bills and Acceptances Payable which decreased by ₱5.4 billion. Other Noncurrent liabilities declined by 37.1% to ₱3.1 billion as of December 31, 2019 from ₱5.0 billion due to various settlements in 2019.

LTG's consolidated Total Equity grew 9.9% to ₱254.0 billion as of December 31, 2019, on account of the increase in Retained Earnings coming from the net earnings during the period and increase in the other comprehensive income from the unrealized gain in fair value of investments. The increase in the noncontrolling interests were relative to the increase in the other comprehensive income and issuance of stock rights by the banking segment. This was partially offset by the partial redemption of the Preferred shares of subsidiaries issued to Parent company amounting to ₱9.5 billion.

2018

The Company's consolidated Total Assets as of December 31, 2018 amounted to ₱1,097.8 billion, an increase of 19.7% from ₱917.1 billion as of December 31, 2017. This was mainly on account of the increase in Current Assets by 10.3% or ₱42.8 billion and increase in Noncurrent Assets of ₱137.9 billion or 27.5%.

The increase in consolidated Current Assets by 10.3% from ₱415.6 billion as of December 31, 2017 to ₱458.3 billion was primarily due to the higher Current Portion of Loans and Receivables on account of the increased booking of loans and higher Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)- formerly called AFS Investments and Financial Assets at Fair Value through Profit or Loss, resulting from various reclassifications to Financial Assets at Amortized Cost formerly called Held to Maturity (HTM) Investments by the bank. Cash and Cash Equivalents were higher from ₱174.0 billion as of end-2017 to ₱177.0 billion as of December 31, 2018. Inventories and Other Current Assets declined by ₱0.26 billion and ₱2.0 billion, respectively, mainly due lower inventory level of the property development segment while for Other Currents Assets it declined because of the banking segments lower levels of FXTN and miscellaneous assets.

The 27.2% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Financial Assets at Amortized Cost, Property, Plant and Equipment and Noncurrent Portion of Loans Receivables. Noncurrent Financial Assets at Amortized Cost were higher by 182.4% due to the bank's reclassification of Financial Assets at FVTOCI to HTM investments. Noncurrent Financial Assets at FVTOCI decreased by 31.9% to ₱48.1 billion from ₱70.7 billion. Noncurrent portion of Loans and Receivables were higher by ₱81.0 billion due to higher booking of loans by the bank. Property, plant and equipment (PPE) – at cost was higher by ₱0.8 billion due to various acquisitions during the year 2018 while PPE – at appraised was higher by ₱24.1 billion due to the banking segments new appraisal of properties in 2018. Investment in Associates and Joint Ventures was higher by ₱3.1 billion to ₱20.3 billion, due to higher equity earnings from PMFTC. Other noncurrent assets and Deferred income tax assets were higher by ₱0.7 billion and ₱0.4 billion, respectively as compared to end-2017 balances.

Consolidated Total Liabilities increased by 20.1% to ₱866.6 billion as of December 31, 2018 from ₱721.8 billion as of December 31, 2017. This was on account of the increase in Total Current Liabilities by 16.5% from ₱665.4 billion in December 31, 2017 to ₱775.8 billion as of the end of the current period and increase in Noncurrent Liabilities of 61.0% from ₱56.4 billion to ₱90.8 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱672.3 billion as of December 31, 2018, 14.3% higher than December 31, 2017. Accounts Payable and Accrued Expenses increased to ₱22.7 billion or 3.2% higher than ₱22.0 billion as of December 31, 2017 due to the various accruals as of end-2018. Income tax payable is lower by 9.1% versus the December 31, 2017 level due to the income tax payments made during the year 2018. Financial liabilities at Fair Value through Profit or Loss were higher by 37.0% from ₱0.3 billion in December 31, 2017 to ₱0.5 billion as of December 31, 2018, on account of the bank's higher derivative liabilities. Short-term debt was higher by 32.3% to ₱2.1 billion in the current period from ₱1.6 billion in December 31, 2017, due to the availment of a loan by the beverage segment. Current portion of Due to Related Parties increased to ₱0.1 billion on account of reclassifications made during the year. Current portion of Bills and Acceptances Payable increased by 65.3% mainly due to the higher currently maturing bills and acceptances payable by the banking segment. Current portion of long-term debts outstanding of ₱91 million as of December 31, 2018 was lower versus end-2017 due to payments made during the year. Other current liabilities increased from ₱15.2 billion as of end-2017 to ₱16.5 billion in current period due to various accruals made during the year 2018.

The increase in the Noncurrent Liabilities was on account of the issuance of bonds by the banking segment which increased the Long-Term Debts Noncurrent portion by ₱17.1 billion to ₱18.6 billion as of end-2018, and higher Noncurrent Bills and Acceptances Payable by ₱2.3 billion of the banking segment. Deposit Liabilities (noncurrent) of the banking segment increased from ₱39.3 billion as of December 31, 2017 to ₱47.2 billion as of December 31, 2018. Accrued Retirement Benefits decreased by 25.7% or ₱0.6 billion. Other noncurrent liabilities increased by 5.9% to ₱5.0 billion as of December 31, 2018 from ₱4.7 billion due to various accruals and additional obligations incurred in 2018. Deferred income tax liabilities increased to ₱8.8 billion due to various tax temporary timing differences accrued in 2018.

LT Group's consolidated Total Equity grew 18.4% to ₱231.2 billion as of December 31, 2018, on account of the increase in Retained Earnings coming from the net earnings during the period and increase in Other Comprehensive Income of 257.9% due to the increase in revaluation surplus of the banking segment's properties.

KEY PERFORMANCE INDICATORS

LTG uses the following major performance measures. The analyses are based on comparisons and measurements on financial data of the current period against the same period of the previous year. The discussion on the computed key performance indicators can be found in the "Results of Operations" in the MD&A above.

1.) **Gross Profit Ratio**

    Gross profit ratio in 2019 was 50.3% versus 52.4% in 2018.

2.) **Return on Equity**

    Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2019 amounted to ₱23.1 billion; higher by 42.7% from last year's ₱16.2 billion. Ratio of net income to equity is 12.4% in 2019 and 9.4% in 2018.

3.) **Current Ratio**

Current Ratio for 2019 is 0.60:1 while last year's was 0.59:1.

4.) **Debt-to-equity ratio**

Debt-to-equity ratio for 2019 is 3.98:1 as compared to last year's 3.75:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2019 is ₱2.14 and ₱1.50 in 2018.

The manner by which LTG calculates the indicators above is as follows:

Gross profit ratio	= Gross profit/Net sales
Return on Equity	= Net Income Attributable to Equity Holders of the LTG/Stockholders equity
Current Ratio	= Current assets/Current liabilities
Debt-to-equity ratio	= Total liabilities/Total equity
Earnings per share	= Net income attributable to holders of the parent company/weighted average number of shares

OTHER MATTERS

(i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.

(ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.

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

(iv) The Group has various on-going and planned capital expenditure projects as follows:

Distilled spirits

TDI will have various capital expenditure projects on improving its manufacturing facilities.

Asian Alcohol Corporation (AAC) will be putting up a Bio-Ethanol facility, which is targeted to operate within 2020.

Beverage

To capitalize on the growing bottled water market, ABI continues to make investments in machinery and equipment to increase its manufacturing capacity for bottled water. In its sweetened beverage and soymilk businesses, ABI continuously makes capital investments to improve efficiencies in its production processes.

Apart from investments in the production process, ABI has also commenced re-fleeting its delivery trucks and upgrading its handling equipment to better control its repairs and maintenance costs and ensure safety in the transport of materials and products.

Investments in returnable containers were also made to replace bottles and crates used in production and to support the growth of the local production of Cobra, Vitamilk and Summit Water in returnable glass bottles.

International Bottled Water Association Membership
ABI's bottled water plant in Cabuyao has been a member of the International Bottled Water Association (IBWA) since it started its bottled water business in 1992. IBWA in reference to U.S. FDA regulations of the Code of Federal Regulations prescribes the Good Manufacturing Practices for Processing and Bottling of Bottled Drinking Water. This includes specific design and performance requirements for determining whether the facilities, methods, practices, and controls used in the processing, bottling, holding and shipping of bottled drinking water are in conformance with or are operated or administered in conformity with good manufacturing practices to assure that bottled drinking water is safe and has been processed, bottled, held and transported under sanitary conditions.

ISO 9001:2015 Quality Management System Certification
ISO is a standard setting body that provides requirements, specifications, guidelines or characteristics that ensure that products and services are safe, reliable and are of good quality. To be ISO 9001:2015 certified, an organization must demonstrate its ability to consistently provide products that meets customer and applicable statutory and regulatory requirements. ABI and Waterich's manufacturing facilities in Cabuyao were recertified in the first half of 2018. IPI's manufacturing facilities in Cabuyao, Pampanga, El Salvador and Davao are likewise ISO 9001:2015 certified. ISO 9001:2015 is an updated requirement for Quality Management System ISO 9001:2008.

(v) The company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.

(vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.

(vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2019 and 2018:

1. Financial assets at fair value through profit or loss – H, 25%
2. Financial assets at fair value through other comprehensive income (FVTOCI) - current – H, 75%
3. Loans and receivables-current – H, 24%
4. Inventories – H, (7%)
5. Other current assets – H, 9%

6. Loans and receivables-noncurrent – H, 6%
7. Financial assets at FVTOCI - noncurrent – H, 130%
8. Investment in associates and joint ventures – H, 34%
9. Property, plant and equipment – at cost – H, 55%
10. Investment properties – H, 8%
11. Deferred income tax assets – H, 24%
12. Other noncurrent assets- H, 17%
13. Deposit liabilities – current – H, 15%
14. Financial liabilities at fair value through profit or loss – current – H, (48%)
15. Bills and acceptances payable - current – H, (14%)
16. Short-term debts – H, 151%
17. Accounts payable and accrued expenses – H, 18%
18. Income tax payable – H, (32%)
19. Long-term debts-current – H, 1,004%)
20. Due to related parties-current – H, (19%)
21. Other current liabilities – H, 14%
22. Bills and acceptances payable - noncurrent – H, (57%)
23. Long-term debt – net of current portion – H, 286%
24. Accrued retirement benefits – H, (26%)
25. Other noncurrent liabilities- H, (37%)
26. Redemption of preferred shares – H, (100%)
27. Other comprehensive income – H, 19%
28. Retained earnings- H, 22%
29. Noncontrolling interests – H, 15%
30. Banking revenue – V, 7%; H, 41%
31. Beverage revenue – H, 8%
32. Distilled spirits revenue – H, 7%
33. Cost of sales – H, 30%
34. Equity in net earnings of associates and joint ventures – V, 5%; H, 86%
35. Selling expenses – H, 12%
36. General and administrative expenses – V, (5%); H, 10%
37. Finance costs – H, 210%
38. Finance income – H, (29%)
39. Others-net – V, (8%); H, (56%)
40. Provision for income tax – deferred – H, (12%)
41. Provision for income tax – current – H, 3133%
42. Net income- H, 34%
43. Net income attributable to parent – H, 43%

The causes for these material changes in the balance sheet and income statement accounts are all explained in the Management's Discussion and Analysis (MDA) –Results of Operations and Financial Condition above.

(viii) There are no seasonal aspects that have a material effect on the financial condition or results of operations of LTG.

A. Information on Independent Accountant and other Related Matters

(1) External Audit Fees and Services

a.) Audit and Audit-Related Fees

1. The Audit of the Group's annual financial statements and other services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2019 and 2018.

	2019	2018
LT Group, Inc.	₱1,320,000	₱1,500,000
Distilled Spirits	3,300,000	3,255,000
Beverage	5,000,000	5,945,000
Tobacco	550,000	600,000
Banking	11,672,000	19,773,000
Property Development	2,450,000	2,300,000
Total	₱24,292,000	₱33,373,000

Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrants' financial statements:

none

b.) Tax Fees

none

c.) All Other Fees

LT Group, Inc. and its subsidiaries incurred ₱2,560,000 and ₱1,600,000 in 2019 and 2018, respectively for consultancy services engagement.

d.) The audit committee's approval policies and procedures for the above services:

Upon recommendation and approval of the audit committee, the appointment of the external auditor is being confirmed in the annual stockholders' meeting. On the other hand, financial statements should be approved by the Board of Directors before these are released**.**

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2019 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	Age	Citizenship	Business Experience/Other Directorship within the Last five (5) years	Position/Term of Office/Period Served
Lucio C. Tan	85	Filipino	Chairman of Absolut Distillers, Inc., Alliedbankers Insurance Corporation, Allianz PNB Life Insurance, Air Philippines Corporation, Asia Brewery, Inc., Asian Alcohol Corporation, Basic Holdings Corporation, Buona Sorte Holdings, Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Lucky Travel Corporation, Mabuhay Maritime Express Transport, Inc., **MacroAsia Corporation**, Philippine Airlines, Inc., PMFTC Inc., Progressive Farms, Inc., **PAL Holdings, Inc.**, Tanduay Distillers, Inc., Tanduay Brands International, Tangent Holdings Corporation, The Charter House, Inc., Trustmark Holdings Corporation, University of the East, Zuma Holdings and Management Corporation. He is also a Director of **Philippine National Bank**.	Chairman/ 1Year/ July 2,1999 to present
Carmen K. Tan	78	Filipino	Vice Chairman of Philippine Airlines, Inc. and Director of Air Philippines Corporation, Asia Brewery, Inc., Buona Sorte Holdings, Inc., Foremost Farms, Inc., Dynamic Holdings, Ltd, Eton City, Inc., Fortune Tobacco Corporation, Himmel Industries, Inc., Lucky Travel Corporation, **MacroAsia Corporation**, **PAL Holdings, Inc**., **Philippine National Bank**, PMFTC, Inc., Progressive Farms, Inc., Tanduay Distillers, Inc., Manufacturing Services and Trade Corporation, Sipalay Trading Corporation, Saturn Holdings, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation and Zuma Holdings and Management Corporation.	Director/ 1 Year/ May 5, 2010 to present

Harry C. Tan	73	Filipino	Director of Eton Properties Philippines, Inc., Pan Asia Securities, Inc., and Lucky Travel Corporation; Managing Director of The Charter House, Inc.; Director and Chairman for Tobacco Board of Fortune Tobacco Corporation; Director and President of Maranaw Hotel (Century Park Hotel) and Landcom Realty Corporation; Director of Asia Brewery Inc., Alliedbankers Insurance Corporation, Absolut Distillers, Inc., Basic Holdings Corporation, Foremost Farms, Inc., Himmel Industries Inc., PMFTC, Inc., Progressive Farms, Inc., Grandspan Development Corporation and Tanduay Distillers, Inc. He is also the Advisor of the Board of **Philippine National Bank**.	Director/ 1 Year/ May 28, 2008 to present
Michael G. Tan	53	Filipino	Director, President and Chief Operating Officer of Asia Brewery, Inc.; Director of Tangent Holdings Corp., **MacroAsia Corporation**, **Philippine National Bank**, Eton Properties Philippines, Inc., PMFTC Inc., Tanduay Distillers, Inc., **Victorias Milling Co.**, Sabre Philippines, AlliedBankers Insurance Corp., Lucky Travel Corp., Maranaw Hotel (Century Park Hotel), Pan-Asia Securities Corp. and Philippine Airlines, Inc.	President/ 1 Year/ 05 May 5, 2010 to present (Director since February 21, 2003)
Lucio K. Tan, Jr.	52+	Filipino	Director, President and Chief Operating Officer of Tanduay Distillers, Inc. and Tanduay Brands International; Director and President of Eton Properties Philippines, Inc. and **PAL Holdings, Inc.**; Director and Executive Vice President of Fortune Tobacco Corporation; Director of Absolut Distillers, Inc., AlliedBankers Insurance Corporation, Asian Alcohol Corporation, Asia Brewery, Inc., Philippine Airlines, Inc., **Philippine National Bank**, **MacroAsia Corporation**, **Victorias Milling Company, Inc.**, PMFTC, Inc., Lucky Travel Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation, Shareholdings, Inc. and	Director / 1 Year/ February 21, 2003 to November 11, 2019

			Zuma Holdings and Management Corporation.	
Lucio C. Tan, III	27	Filipino	Director, President and Chief Operating Officer of Tanduay Distillers, Inc., and Director of Air Philippines Corporation, **MacroAsia Corporation**, **PAL Holdings, Inc.**, and Philippine Airlines, Inc.	Director/ 1 Year/ December 17, 2019 to present
Vivienne K. Tan	51	Filipino	Director of **Philippine National Bank**, **PAL Holdings, Inc.** Philippine Airlines, Inc., Member of the Board of Trustees of University of the East and University of the East Ramon Magsaysay Memorial Medical Center, Executive Vice President of Philippine Airlines, Inc., Founding Chairperson of Entrepreneurs School of Asia and Founding Trustee of Philippines Center for Entrepreneurship (Go Negosyo).	Director/ 1 Year/ May 8, 2019 to present
Juanita T. Tan Lee	77	Filipino	Director of Asia Brewery, Inc., Eton Properties Philippines, Inc., and Tanduay Distillers, Inc.; Director and Corporate Secretary of Fortune Tobacco Corporation, Corporate Secretary of Absolut Distillers, Inc., Asian Alcohol Corporation, The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Landcom Realty Corporation, Lucky Travel Corporation, PMFTC Inc., Progressive Farms, Inc. and Total Bulk Corporation; Assistant Corporate Secretary of Basic Holdings Corporation; and a member of the Board of Trustees of the University of the East.	Director/ 1 Year/ May 2, 2012 to present Assistant Corporate Secretary/ 1 Year/ September 13, 2000 to September 17, 2012 Treasurer/ 1 year/ April 8, 2014 to present
Johnip G. Cua	62	Filipino	Former President of Procter & Gamble Philippines, Inc., currently the Chairman of the Board of the P&Gers Fund, Inc. and Xavier School, Inc., and the Chairman & President of Taibrews Corporation. He is an Independent Director of BDO Private Bank, PhilPlans First, Inc., Eton Properties Philippines, Inc., Asia Brewery, Inc., Tanduay Distillers, Inc., **MacroAsia Corporation,** MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, **PAL Holdings, Inc.** and Philippine Airlines, Inc. He is also a member of the Board of Directors of Interbake Marketing	Independent Director / 1 Year/ 08 May 2018 to present

			Corporation, Teambake Marketing Corporation, Bakerson Corporation, Lartizan Corporation, Alpha Alleanza Manufacturing, Inc., and Allied Botanical Corporation, and a member of the Board of Trustees of Xavier School Educational & Trust Fund.	
Mary G. Ng	61	Filipino	Chief Executive Officer of H&E Group of Companies; Honorary President of the Packaging Institute of the Philippines, the Philippine Plastic, Industrial Association of the Philippines, and the Association of Volunteer Fire Chiefs and Firefighters of the Philippines; First woman Chairman of the ASEAN Federation of Plastic Industries (AFPI); Executive Vice President of Federation of Filipino-Chinese Chamber of Commerce and Industries; Tripartite Board member of the Department of Labor and Employment; Board member of Technical Educational and Skills Development Authority (TESDA); Vice President of the Philippine Piak O Eng Chamber of Commerce and Philippine Piak O Eng Uy's Association; and Director of Philippine Dongshi Townmate Association, Inc.	Independent Director / 1 Year/ May 8, 2019 to present
Wilfrido E. Sanchez	82	Filipino	Tax Counsel of Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of The Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corporation, **EEI Corporation**, Grepalife Asset Management Corporation, Grepalife Fixed Income Fund Corporation, **House of Investments, Inc.**, JVR Foundation, Inc., Kawasaki Motor Corporation, Magellan Capital Holdings Corporation, Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corporation, Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and **Universal Robina Corporation**; Independent Director of Eton Properties Philippines, Inc., Asia Brewery, Inc., and Tanduay Distillers, Inc.	Independent Director/ 1 year/July 31, 2012 to present

Florencia G. Tarriela	72	Filipino	Chairman and Independent Director of **Philippine National Bank**, PNB Capital and Investment Corporation, PNB-IBJL Leasing and Finance Corporation, and PNB-IBJL Equipment Rentals Corporation; Independent Director of PNB International Investments Corporation; Director of Bankers Association of the Philippines; Director/Vice President of Tarriela Management Company and Director/Vice President/Assistant Treasurer of Gozon Development Corporation; and Life Sustaining Member of Bankers Institute of the Philippines (BAIPHIL) and Financial Executives of the Philippines (FINEX). She has also been a Board Trustee of Tulay sa Pag-unlad, Inc. (TSPI) since 2003 and a columnist for "Business Options" of the Manila Bulletin and "FINEX Folio" of BusinessWorld.	Independent Director/ 1 year/August 09, 2012 to present

2. Executive Officers

Name/Position	Age	Citizenship	Current Affiliations and Business Experiences in the last 5 years	Term of Office/ Period Served
Lucio C. Tan/ Chairman	85	Filipino	See above	1 Year/July 2, 1999 to present
Michael G. Tan/ President and Chief Operating Officer	53	Filipino	See above	1 Year/May 5, 2010 to present
Juanita T. Tan Lee/ Treasurer	77	Filipino	See above	1 Year/April 8, 2014 to present
Ma. Cecilia L. Pesayco/ Corporate Secretary	67	Filipino	Corporate Secretary of Asia Brewery, Inc., Air Philippines Corporation, **PAL Holdings, Inc.**, PNB Savings Bank, Trustmark Holdings Corporation, Zuma Holdings and Management Corporation. She is likewise the Chief Legal Counsel of the Tan Yan Kee Foundation.	1 Year/March 31, 1998 to present
Jose Gabriel D. Olives/ Chief Financial Officer and Chief Risk Officer	73	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	1 Year/August 09, 2012 to present
Dioscoro Teodorico L. Lim/Chief Audit Executive	65	Filipino	Former Chief Audit Executive of Philippine National Bank.	1 Year/July 11, 2017 to present
Nestor C. Mendones/ Deputy Chief Financial Officer	65	Filipino	Senior Vice President-Finance and Chief Finance Officer of Tanduay Distillers, Inc.	1 Year/August 09, 2012 to present

Marivic T. Moya/ Assistant Corporate Secretary and Compliance Officer	59	Filipino	Corporate Secretary of **MacroAsia Corporation**, Philippine Airlines, Inc., Cavite Business Resources, Inc. MacroAsia Catering Services Inc., MacroAsia Airport Services Corporation, and Watergy Business Solutions Inc., Director and Corporate Secretary of MacroAsia Properties Development Corporation, MacroAsia Air Taxi Services, Inc., and MacroAsia Mining Corporation, Corporate Secretary	1 Year/June 09, 2014 to present

Independent Directors and their qualifications:

1. Johnip G. Cua, elected as Independent Director since May 8, 2018.

   Term of office – 1 year
   Period served – 2 years

   Educational attainment:
   Bachelor of Science in Chemical Engineer, University of the Philippines

   Positions held in the last 5 years:
   - P&Gers Fund, Inc. – Chairman
   - Xavier School, Inc. – Chairman
   - Taibrews Corporation – Chairman and President
   - BDO Private Bank – Independent Director
   - PhilPlans First, Inc. – Independent Director
   - Asia Brewery, Inc. – Independent Director
   - Eton Properties Philippines, Inc. – Independent Director
   - MacroAsia Corp. – Independent Director
   - MacroAsia Catering Services, Inc. – Independent Director
   - MacroAsia Airport Services Corp. – Independent Director
   - PAL Holdings, Inc. – Independent Director
   - Philippine Airlines, Inc. – Independent Director
   - Tanduay Distillers, Inc. – Independent Director
   - Interbake Marketing Corp. – Director
   - Teambake Marketing Corp. – Director
   - Bakerson Corp. – Director
   - Lartizan Corp. – Director
   - Alpha Alleanza Manufacturing, Inc. – Director
   - Allied Botanical Corp. – Director
   - Xavier School Educational & Trust Fund – Member of the Board of Trustees
   - Advertising Foundation of the Philippines – Chairman of the Board of Trustees

2. Mary G. Ng, elected as Independent Director since May 7, 2019.

   Term of office – 1 year
   Period served – 1 year

   Positions held in the last 5 years:
   - Chief Executive Officer of H&E Group of Companies

- Honorary President of the Packaging Institute of the Philippines, the Philippine Plastic Industrial Association of the Philippines, and the Association of Volunteer Fire Chiefs and Firefighters of the Philippines.
- First woman Chairman of the ASEAN Federation of Plastic Industries (AFPI)
- Executive Vice President of Federation of Filipino-Chinese Chamber of Commerce and Industries
- Tripartite Board member of the Department of Labor and Employment
- Board member of Technical Educational and Skills Development Authority (TESDA)
- Vice President of the Philippine Piak O Eng Chamber of Commerce and Philippine Piak O Eng Uy's Association
- Director of Philippine Dongshi Townmate Association, Inc.

3. Wilfrido E. Sanchez, elected as an Independent Director since July 31, 2012.

Term of office – 1 year
Period served – 7 years

Educational attainment:
Bachelor of Arts, Ateneo de Manila University
Bachelor of Laws, Ateneo de Manila University
Master of Laws, Yale Law School

Positions held in the last 5 years:
- Quiason Makalintal Barot Torres & Ibarra Law Offices – Tax Counsel
- Adventure International Tours, Inc. – Director
- Amon Trading Corp. – Director
- Center for Leadership and Change, Inc. – Vice Chairman/Director
- EEI Corporation – Director
- Eton Properties Philippines, Inc. – Independent Director
- House of Investments, Inc. –Director
- JVR Foundation, Inc. – Director
- Kawasaki Motor Corp. – Director
- Magellan Capital Holdings Corp. – Director
- PETNET, Inc. – Director
- PETPLANS, Inc. – Director
- Rizal Commercial Banking Corp. – Independent Director
- Transnational Diversified Corp. – Director
- Transnational Financial Services, Inc. - Director
- Universal Robina Corp. – Independent Director

4. Florencia G. Tarriela, elected as Independent Director since August 9, 2012.

Term of office – 1 year
Period served – 7 years

Educational Attainment:
BSBA major in Economics, University of the Philippines
Master of Arts in Economics, University of California, Los Angeles (UCLA), USA (topped the Master's Comprehensive Exams and completed the M.A. Degree with an "A" average in three Quarters)

Positions held in the last 5 years:
- Chairman and Independent Director of Philippine National Bank
- Chairman and Independent Director of PNB Capital and Investment Corporation
- Chairman and Independent Director of PNB-IBJL Leasing and Finance Corporation

- Chairman and Independent Director of PNB-IBJL Equipment Rentals Corporation----
- Independent Director of PNB International Investments Corporation
- Director of Bankers Association of the Philippines
- Director/Vice President of Tarriela Management Company
- Director/Vice President/Assistant Treasurer of Gozon Development Corporation
- Life Sustaining Member of Bankers Institute of the Philippines (BAIPHIL)
- Financial Executives of the Philippines (FINEX)
- Board Trustee of Tulay sa Pag-unlad, Inc. (TSPI)
- Columnist for "Business Options" of the Manila Bulletin and "FINEX Folio" of BusinessWorld.

The Independent Directors are duly qualified and suffer from no disqualification under Section 11(5) of the Code of Corporate Governance. Independent director refers to a person other than an officer or employee of the corporation, its parent or subsidiaries, or any other individual having any relationship with the corporation, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. This means that apart from the director's fees and shareholdings, he should be independent of management and free from any business or other relationship which could materially interfere with the exercise of his independent judgment (SEC Memorandum Circular No. 2, Code of Corporate Governance).

4. Significant Employees

All employees of the Group are similarly situated and expected to contribute for the betterment of the Company.

5. Family Relationship

Dr. Lucio C. Tan, married to Ms. Carmen K. Tan, is the brother of Mr. Harry C. Tan and the father of Mr. Lucio K. Tan, Jr.[+], Mr. Michael G. Tan and Ms. Vivienne K. Tan, and the grandfather of Mr. Lucio C. Tan, III.

6. Involvement in Certain Legal Proceedings during the past 5 years

The Directors and Executive Officers of LTG are not involved in (a) any bankruptcy petition by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b) any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses; (c) being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and (d) being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Item 10. Executive Compensation

The following compensation was given to officers and directors for the reporting year.

Summary Compensation Table

Annual Compensation

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2020 (Estimate)	8,679,000	737,000	3,074,500
	2019	7,890,000	670,000	2,795,000
	2018	7,440,000	620,000	2,725,000
All other officers and directors as a group unnamed	2020 (Estimate)	2,530,000	210,834	7,166,500
	2019	2,300,000	191,667	6,515,000
	2018	2,400,000	200,000	6,410,000

The following constitute LTG's four (4) most highly compensated executive officers (on a consolidated basis):

1. Mr. Lucio C. Tan is the Chairman of the Board of Directors and Chief Executive Officer (CEO).
2. Mr. Michael Tan is the President and Chief Operating Officer.
3. Atty. Ma. Cecilia L. Pesayco is the Corporate Secretary.
4. Ms. Juanita T. Tan Lee is the Treasurer.

a) Standard Arrangements – The Directors of LTG receive a Director's allowance of P30,000.00 a month and a per diem of P25,000.00 for every board meeting and P15,000.00 for every committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of LTG are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

b) Other Arrangements – None
c) Employment contract or compensatory plan or arrangement – None

Warrants and Options Outstanding: Repricing

a.) There are no outstanding warrants or options held by LTG's CEO, the named executive officers, and all officers and directors as a group.

b.) This is not applicable since there are no outstanding warrants or options held by LTG's CEO, executive officers and all officers and directors as a group.

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2019.

1. Security Ownership of Certain Record and Beneficial Owners of more than 5%

Title of Class	Name and Address of Record Owner and relationship with Issuer	Name of Beneficial Ownership and relationship with Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation (THC) Unit 3, 11/F, Bench Tower, 30th Street corner Rizal Drive, Crescent Park West, Bonifacio Global City, Taguig City Controlling Stockholder	Lucio C. Tan Majority Shareholder	Filipino	8,046,318,193/ Record Owner	74.36%

Each shareholder of the Company is entitled to vote only to the extent of the number of shares registered in his/her/its name. The Board of Directors of THC, comprised of Dr. Lucio C. Tan, Ms. Carmen K. Tan and Messrs. Harry C. Tan, and Michael G. Tan, has the right to vote or direct the voting or disposition of LTG's shares held by THC.

2. Security Ownership of Management as of December 31, 2019

Title of Class	Name of Beneficial owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2,200 R (direct)	Filipino	Nil
Common	Harry C. Tan	3,300 R (direct)	Filipino	Nil
Common	Carmen K. Tan	2,200 R (direct)	Filipino	Nil
Common	Michael G. Tan	146,100 R (direct)	Filipino	Nil
Common	Lucio C. Tan, III	1,100 R (direct)	Filipino	Nil
Common	Vivienne K. Tan	1,000 R (direct)	Filipino	Nil
Common	Juanita T. Tan Lee	1,100 R (direct)	Filipino	Nil
Common	Johnip G. Cua	1,000 R (direct)	Filipino	Nil
Common	Mary G. Ng	1,000 R (direct)	Filipino	Nil
Common	Wilfrido E. Sanchez	1,000 R (direct)	Filipino	Nil
Common	Florencia G. Tarriela	1,000 R (direct)	Filipino	Nil
Common	Ma. Cecilia L. Pesayco	2,200 R (direct)	Filipino	Nil
N/A	Jose Gabriel D. Olives	None N/A	Filipino	N/A
N/A	Dioscoro Teodorico L. Lim	None N/A	Filipino	N/A

N/A	Nestor C. Mendones	None N/A	Filipino	N/A
N/A	Marivic T. Moya	None N/A	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 163,200 representing 0% of LTG's total outstanding capital stock.

*There are no additional shares which the listed beneficial and record owners have the right to acquire within 30 days from any warrants, options, rights and conversion privileges or similar obligations or otherwise.

3. Voting Trust Holders of 5% or more

There are no voting trust holders of 5% or more of the common shares.

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

The Group, in their regular conduct of business, have entered into transactions with associates and other related parties principally consisting of purchase and sale of inventories, advances, management, leasing and administrative service agreements. Sales and purchases of goods and services to and from related parties are made on an arm's length basis and at current market prices at the time of the transactions.

There are no other transactions undertaken or to be undertaken by the Group in which any director or executive officer, any nominee for election as director, any beneficial owner of more than 5% of the Company's outstanding shares (direct or indirect) or any member of his immediately family was involved or had a direct or indirect material interest.

The Group's employees are required to promptly disclose any business and family-related transactions with the Group to ensure that potential conflicts of interest are surfaced and brought to the attention of management.

The effects of the related party transactions on the financial statements have been identified in Note 22 of the Notes to Consolidated Financial Statements.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

This will be filed separately in May 2020.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

a. Exhibits - see accompanying Index to Exhibits (page 80)

The other exhibits, as indicated in the Index to Exhibits are either not applicable to the Group or require no answer

b. Reports on SEC Form 17-C

SEC Form 17-C (Current Reports), which has been filed during the year, is no longer filed as part of the exhibits.

LIST OF ITEMS REPORTED UNDER SEC FORM 17-C
(from July 2019 to December 2019)

Date of Report	Subject Matter Disclosed
July 3, 2019	Amendment of By-Laws to restore the position of Vice Chairman in its corporate structure.
July 8, 2019	Change in Shareholdings of Directors and Principal Officers
July 9, 2019	Appointment of Mr. Jose Gabriel D. Olives as the Corporation's Chief Risk Officer.
August 2, 2019	Clarification of News Report entitled "*Roxas agrees to sell sugar mill to Tanduay*"
August 13, 2019	Press Release: *"LTG's Attributable Net Income of Php9.24 Billion for the First Half of 2019 is 3% Higher than 1H18".*
August 30, 2019	Change in Shareholdings of Directors and Principal Officers.
November 12, 2019	Announcement of Mr. Lucio K. Tan, Jr.'s passing on November 11, 2019.
November 13, 2019	Press Release: *"LTG's 9M19 Attributable Net Income at Php14.72 Billion, 17% Higher than 9M18."*
December 17, 2019	Election of Mr. Lucio C. Tan, III as Director of the Corporation and his appointment as Director, President and Chief Operating Officer of Tanduay Distillers, Inc.

PART VI – SUSTAINABILITY REPORT

(Please see last part of 17-A)

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on MAR 10 2020.

By:

Lucio C. Tan
Chairman and Chief Executive Officer

Nestor C. Mendones
Deputy Chief Financial Officer

Michael G. Tan
President and Chief Operating Officer

Susan T. Lee
Principal Accounting Officer

Jose Gabriel D. Olives
Chief Financial Officer

Ma. Cecilia L. Pesayco
Corporate Secretary

SUBSCRIBED AND SWORN to before me this MAR 10 2020 affiants exhibiting to me their Passport numbers, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	P3645577A	11-Jul-17	Manila, Philippines
Michael G. Tan	P3415001A	16-Jun-17	Manila, Philippines
Jose Gabriel D. Olives	P7769394A	02-Jul-18	Manila, Philippines
Nestor C. Mendones	P3103903B	06-Sep-19	NCR West, Philippine
Susan T. Lee	P3633584B	25-Oct-19	NCR West, Philippine
Ma. Cecilia L. Pesayco	EC8362602	20-Jul-16	Manila, Philippines

SHERLEEN LOURDS R. MACATANGAY
Notary Public until 31 December 2020
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 8117098, Makati City, 02 January 2020
IBP No. 089377, Makati City, 02 January 2020
Roll No. 63799, Commission No. M-140
MCLE Compliance No. VI-0007163, 12 March 2018

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Book No. V
Series of 2020

LT GROUP, INC.
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* These schedules which are required by part IV(e) of SRC Rule 68, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Consolidated Financial Statements.

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **LT Group, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for each of the three years ended December 31, 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Signed under oath by the following:

Lucio C. Tan
Chairman and Chief Executive Officer

Michael G. Tan
President

Jose Gabriel D. Olives
Chief Financial Officer

Signed this 10th day of March 2020

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on March 10, 2020

Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	P3645577A	7/11/2017	Manila, Philippines
Michael G. Tan	P3415001A	6/16/2017	Manila, Philippines
Jose Gabriel D. Olives	P7769394A	7/2/2018	Manila, Philippines

Known to me and to me known to be the same persons who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed for the use and purpose hereinabove set forth.

This instrument consisting of two (2) pages, including this whereon the acknowledgement is written, has been signed by the party on each and every page thereof.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of MAR 10 2020 2020 at Makati City Philippines

SHERLEEN LOURDS R. MACATANGAY
Notary Public until 31 December 2020
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 8117096, Makati City, 02 January 2020
IBP No. 089377, Makati City, 02 January 2020
Roll No. 63799, Commission No. M-140
MCLE Compliance No. VI-0007163, 12 March 2018

Doc. No. 12
Page No. 4
Book No. V
Series of 2020

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3

COMPANY NAME

LT GROUP, INC. AND
SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

11th Floor, Unit 3 Bench
Tower, 30th St. corner Rizal
Drive Crescent Park West 5
Bonifacio Global City,
Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-A	N/A	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
info@ltg.com.ph	(02) 8808-1266	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
375	5/7	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Jose Gabriel D. Olives	josegabriel.olives@ltg.com.ph	8808-1266	N/A

CONTACT PERSON's ADDRESS

11th Floor, Unit 3 Bench Tower, 30th St. corner Rizal Drive Crescent Park West 5 Bonifacio Global City, Taguig City

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5
Bonifacio Global City, Taguig City

Opinion

We have audited the consolidated financial statements of LT Group, Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases, specifically those previously classified as operating lease arrangements where the Group is the lesssee. The Group's adoption of PFRS 16 is significant to our audit because the Group has numerous lease agreements; the recorded amounts are material to the consolidated financial statements; and the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱3,126.2 million and ₱3,336.9 million, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱650.0 million and ₱229.7 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2 and 38 to the consolidated financial statements.

Audit Response
We obtained an understanding of the Group's process in implementing the new standard, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low-value assets exemptions, the selection of the transition approach and any election of available practical expedients. We tested the completeness of the population of lease contracts by comparing the number of leases per operational report against the lease contract database. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the contract database, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We recomputed the lease calculations prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Recognition of Allowance for Expected Credit Losses on Loans and Receivables

The Group's application of the expected credit loss (ECL) model in determining the allowance for credit losses on loans and receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

Allowance for credit losses and the provision for credit losses as of and for the year ended December 31, 2019 amounted to ₱18,747.2 million and ₱2,892.1 million, respectively.

Refer to Notes 8 and 32 to the consolidated financial statements for the disclosures on details of the allowance for credit losses using the ECL model.

Audit Response
We obtained an understanding of the methodologies and models approved by the Board of Directors and used for the Group's different credit risk exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider the time value of money and the best available forward-looking information.

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used through corroboration using publicly available information and our understanding of the Group's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit risk exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We reviewed the completeness of the disclosures made in the consolidated financial statements.

We involved our internal specialists in the performance of the above procedures.

Recoverability of Deferred Tax Assets

As of December 31, 2019, the deferred tax assets of Philippine National Bank (PNB, a subsidiary) amounted to ₱2,351.5 million. The analysis of the recoverability of deferred tax assets is significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of PNB.

The disclosures in relation to deferred income taxes are included in Note 29 to the consolidated financial statements.

Audit response
We reviewed the management's assessment of the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of PNB. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Accounting for Investment in PMFTC, Inc.

The Group has an investment in PMFTC. Inc. (PMFTC) that is accounted for under the equity method. For the year ended December 31, 2019, the Group’s share in the net income of PMFTC amounted to ₱15,222.2 million and accounts for 55% of the Group’s consolidated net income. This matter is significant to our audit because of the materiality of the amount being equitized to the Group.

The disclosures in relation to the Group’s investment in PMFTC are included in Note 11 to the consolidated financial statements.

Audit Response
We sent instructions to the statutory auditor of PMFTC to perform an audit of the relevant financial information of PMFTC for the purpose of the Group’s consolidated financial statements. These audit instructions cover their scope of work, risk assessment procedures, audit strategy and reporting responsibilities. We discussed with PMFTC statutory auditor about their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, and results of their work for the year ended December 31, 2019. We reviewed the working papers of the statutory auditor of PMFTC, focusing on the procedures performed on key audit areas. We discussed with PMFTC’s statutory auditor the results of their audit. We also obtained the financial information of PMFTC for the year ended December 31, 2019 and recomputed the Group’s share in net income for the year then ended.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor’s report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor’s report.

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

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

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

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-4 (Group A),
August 23, 2018, valid until August 22, 2021
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125242, January 7, 2020, Makati City

March 10, 2020

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2019	2018 (As Restated, Note 37)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱184,913,132**	₱176,973,765
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	**13,469,380**	10,784,350
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	**16,968,590**	9,684,883
Financial assets at amortized cost (Notes 7 and 17)	**25,252,670**	25,306,661
Loans and receivables (Notes 8 and 17)	**260,926,594**	210,015,362
Inventories (Note 9)	**12,196,871**	13,108,204
Due from related parties (Note 22)	**2,029,436**	2,028,632
Other current assets (Note 10)	**11,379,265**	10,479,266
Total Current Assets	**527,135,938**	458,381,123
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	**411,253,754**	388,646,568
Financial assets at FVTOCI (Notes 7 and 17)	**110,549,031**	48,122,239
Financial assets at amortized cost (Notes 7 and 17)	**75,212,087**	75,499,200
Investments in associates and joint ventures (Note 11)	**27,254,278**	20,314,141
Property, plant and equipment (Note 12):		
At appraised values	**59,811,911**	60,317,761
At cost	**12,087,216**	7,817,427
Investment properties (Note 13)	**32,631,441**	30,318,901
Deferred income tax assets - net (Note 29)	**2,386,671**	1,925,224
Other noncurrent assets (Note 14)	**7,508,226**	6,434,224
Total Noncurrent Assets	**738,694,615**	639,395,685
TOTAL ASSETS	**₱1,265,830,553**	₱1,097,776,808
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	**₱772,143,072**	₱672,342,296
Financial liabilities at FVTPL (Notes 16 and 21)	**245,619**	470,648
Bills and acceptances payable (Note 17)	**51,821,601**	60,549,245
Accounts payable and accrued expenses (Note 18)	**26,700,462**	22,719,837
Short-term debts (Note 19)	**5,150,000**	2,050,000
Current portion of long-term debts (Note 19)	**1,002,593**	90,829
Income tax payable	**690,518**	1,012,898
Due to related parties (Note 22)	**65,325**	80,199
Other current liabilities (Notes 20 and 38)	**18,842,433**	16,508,539
Total Current Liabilities (Carried Forward)	**876,661,623**	775,824,491

	December 31	
	2019	2018 (As Restated, Note 37)
Total Current Liabilities (Brought Forward)	**₱876,661,623**	₱775,824,491
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	**46,095,883**	47,219,123
Bills and acceptances payable (Note 17)	**4,141,689**	9,533,590
Long-term debts - net of current portion (Note 19)	**71,566,863**	18,555,324
Net retirement benefits liability (Note 23)	**1,699,743**	1,638,138
Deferred income tax liabilities - net (Note 29)	**8,510,128**	8,816,457
Other noncurrent liabilities (Note 20)	**3,147,053**	4,999,297
Total Noncurrent Liabilities	**135,161,359**	90,761,929
Total Liabilities	**1,011,822,982**	866,586,420
Equity		
Attributable to equity holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36):		
Capital stock	**10,821,389**	10,821,389
Capital in excess of par	**35,906,231**	35,906,231
Preferred shares of subsidiaries issued to Parent Company	**8,538,837**	18,060,000
Other comprehensive income, net of deferred income tax effect	**18,038,315**	15,388,589
Other equity reserves	**1,024,653**	804,095
Retained earnings	**112,604,635**	91,998,914
Shares of stock of the Company held by subsidiaries	**(12,519)**	(12,519)
	186,921,541	172,966,699
Non-controlling interests (Notes 1, 7, 12 and 30)	**67,086,030**	58,223,689
Total Equity	**254,007,571**	231,190,388
TOTAL LIABILITIES AND EQUITY	**₱1,265,830,553**	₱1,097,776,808

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Years Ended December 31		
	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
REVENUE (Note 24)			
Banking	**₱56,615,631**	₱40,243,028	₱32,124,835
Distilled spirits	**19,261,735**	18,062,573	16,704,933
Beverage	**15,234,051**	14,125,559	12,948,796
Property development	**3,132,431**	3,198,735	2,233,063
	94,243,848	75,629,895	64,011,627
COST OF GOODS SOLD AND SERVICES (Note 24)	**46,802,568**	35,965,402	29,679,810
GROSS INCOME	**47,441,280**	39,664,493	34,331,817
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	**14,813,251**	7,966,691	3,963,505
	62,254,531	47,631,184	38,295,322
OPERATING EXPENSES			
Selling expenses (Note 25)	**3,011,424**	2,700,387	2,692,425
General and administrative expenses (Note 26)	**32,720,730**	29,809,844	24,584,811
	35,732,154	32,510,231	27,277,236
OPERATING INCOME	**26,522,377**	15,120,953	11,018,086
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	**1,049,980**	1,102,583	1,701,302
Finance income (Note 27)	**146,253**	206,641	157,100
Finance costs (Note 27)	**(450,841)**	(145,457)	(141,937)
Others - net (Note 28)	**3,995,302**	9,066,702	5,343,160
	4,740,694	10,230,469	7,059,625
INCOME BEFORE INCOME TAX	**31,263,071**	25,351,422	18,077,711
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	**4,210,851**	4,809,047	3,605,838
Deferred	**(513,537)**	(15,886)	(108,783)
	3,697,314	4,793,161	3,497,055
NET INCOME	**₱27,565,757**	₱20,558,261	₱14,580,656
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱23,117,524**	₱16,194,778	₱10,830,773
Non-controlling interests	**4,448,233**	4,363,483	3,749,883
	₱27,565,757	₱20,558,261	₱14,580,656
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	**₱2.14**	₱1.50	₱1.00

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
NET INCOME	**₱27,565,757**	₱20,558,261	₱14,580,656
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:			
Net changes in fair value of financial assets at FVTOCI (Note 7)	**2,260,682**	(145,484)	–
Income tax effect	**–**	–	–
	2,260,682	(145,484)	–
Net changes in fair value of AFS investments (Note 7)	**–**	–	2,533,268
Income tax effect	**–**	–	(55,010)
	–	–	2,478,258
Translation adjustments	**(916,208)**	451,664	508,364
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	**1,344,474**	306,180	2,986,622
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Net changes in fair value of financial assets at FVTOCI (Note 7)	**4,974,003**	(718,772)	–
Income tax effect	**(1,492,201)**	(214,593)	–
	3,481,802	(933,365)	–
Remeasurement gains (losses) on defined benefit plans (Note 23)	**(1,448,458)**	954,113	1,178,433
Income tax effect	**276,868**	(103,469)	(115,548)
	(1,171,590)	850,644	1,062,885
Share in remeasurement gain on defined benefit plans of associates (Note 11)	**1,001,641**	57,018	28,526
Revaluation increase (decrease) on property, plant and equipment (Note 12)	**858,633**	23,910,070	–
Income tax effect	**(257,590)**	(7,173,021)	–
	601,043	16,737,049	–
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	**3,912,896**	16,711,346	1,091,411
OTHER COMPREHENSIVE INCOME, NET OF TAX	**5,257,370**	17,017,526	4,078,033
TOTAL COMPREHENSIVE INCOME	**₱32,823,127**	₱37,575,787	₱18,658,689
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	**₱26,501,864**	₱25,558,850	₱14,164,368
Non-controlling interests	**6,321,263**	12,016,937	4,494,321
	₱32,823,127	₱37,575,787	₱18,658,689

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36)																
						Other Comprehensive Income (Loss)											
	Capital Stock	Capital in Excess of Par	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans FVTOCI (Note 23)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Revaluation Increment on Property, Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 2, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2016	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**₱–**	**₱694,323**	**(₱1,971,897)**	**(₱1,581,187)**	**₱4,473,280**	**₱172,507**	**₱90,980**	**₱1,878,006**	**₱68,640,783**	**(₱12,519)**	**₱136,097,985**	**₱42,506,591**	**₱178,604,576**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	10,830,773	–	10,830,773	3,749,883	14,580,656
Other comprehensive income	–	–	–	–	–	289,555	2,343,380	646,592	–	–	54,068	3,333,595	–	–	3,333,595	744,438	4,078,033
Total comprehensive income for the year	–	–	–	–	–	289,555	2,343,380	646,592	–	–	54,068	3,333,595	10,830,773	–	14,164,368	4,494,321	18,658,689
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(1,947,850)	–	(1,947,850)	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(739,420)	(172,507)	–	(911,927)	911,927	–	–	–	–
BALANCES AT DECEMBER 31, 2017	**10,821,389**	**35,906,231**	**18,060,000**	**804,095**	**–**	**983,878**	**371,483**	**(934,595)**	**3,733,860**	**–**	**145,048**	**4,299,674**	**78,435,633**	**(12,519)**	**148,314,503**	**47,000,912**	**195,315,415**
Effect of PFRS 9 adoption in 2018	–	–	–	–	–	–	2,464,345	–	–	–	–	2,464,345	(1,178,864)	–	1,285,481	(712,042)	573,439
Effect of PFRS 15 adoption in 2018	–	–	–	–	–	–	–	–	–	–	–	–	(27,857)	–	(27,857)	(106)	(27,963)
BALANCES AT JANUARY 1, 2018	**10,821,389**	**35,906,231**	**18,060,000**	**804,095**	**–**	**983,878**	**2,835,828**	**(934,595)**	**3,733,860**	**–**	**145,048**	**6,764,019**	**77,228,912**	**(12,519)**	**149,572,127**	**46,288,764**	**195,860,891**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	16,194,778	–	16,194,778	4,363,483	20,558,261
Other comprehensive income	–	–	–	–	–	168,781	(1,153,632)	596,597	9,695,308	–	57,018	9,364,072	–	–	9,364,072	7,653,454	17,017,526
Total comprehensive income (loss) for the year	–	–	–	–	–	168,781	(1,153,632)	596,597	9,695,308	–	57,018	9,364,072	16,194,778	–	25,558,850	12,016,937	37,575,787
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(2,164,278)	–	(2,164,278)	(19,357)	(2,183,635)
Reversal of disposal group classified as held for sale	–	–	–	–	(21,893)	–	15,601	6,292	–	–	–	21,893	–	–	–	(62,655)	(62,655)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(739,502)	–	–	(739,502)	739,502	–	–	–	–
BALANCES AT DECEMBER 31, 2018	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**(₱21,893)**	**₱1,152,659**	**₱1,697,797**	**(₱331,706)**	**₱12,689,666**	**₱–**	**₱202,066**	**₱15,410,482**	**₱91,998,914**	**(₱12,519)**	**₱172,966,699**	**₱58,223,689**	**₱231,190,388**

	Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36)																
						Other Comprehensive Income (Loss)											
	Capital Stock	**Capital in Excess of Par**	**Preferred Shares of Subsidiaries Issued to Parent Company**	**Other Equity Reserves**	**Reserves of Disposal Group Classified as Held for Sale**	**Cumulative Translation Adjustments**	**Net Changes in Financial Assets at FVTOCI/ AFS Investments** (Note 7)	**Remeasurement Gains (Losses) on Defined Benefit Plans** (Note 23)	**Revaluation Increment on Property, Plant and Equipment** (Note 12)	**Revaluation Increment on Property, Plant and Equipment Transferred to Associate** (Notes 2, 11 and 12)	**Remeasurement Gains on Defined Benefit Plans of an Associate** (Note 11)	**Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect**	**Retained Earnings**	**Shares of Stock of the Company Held by Subsidiaries**	**Total**	**Non-controlling Interests** (Notes 1, 7, 12 and 30)	**Total**
BALANCES AT DECEMBER 31, 2018 AS PREVIOUSLY REPORTED	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**(₱21,893)**	**₱1,152,659**	**₱1,697,797**	**(₱331,706)**	**₱12,689,666**	**₱–**	**₱202,066**	**₱15,410,482**	**₱91,998,914**	**(₱12,519)**	**₱172,966,699**	**₱58,223,689**	**₱231,190,388**
Reversal of disposal group classified as held for sale	–	–	–	–	21,893	–	(15,601)	(6,292)	–	–	–	(21,893)	–	–	–	–	–
BALANCES AT DECEMBER 31, 2018 AS ADJUSTED	**10,821,389**	**35,906,231**	**18,060,000**	**804,095**	**–**	**1,152,659**	**1,682,196**	**(337,998)**	**12,689,666**	**–**	**202,066**	**15,388,589**	**91,998,914**	**(12,519)**	**172,966,699**	**58,223,689**	**231,190,388**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	23,117,254	–	23,117,254	4,448,233	27,565,757
Other comprehensive income (loss)	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	–	1,001,641	3,384,340	–	–	3,384,340	1,873,030	5,257,370
Total comprehensive income (loss) for the year	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	–	1,001,641	3,384,340	23,117,524	–	26,501,864	6,321,263	32,823,127
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(3,326,908)	–	(3,326,908)	(3,372)	(3,330,280)
Early redemption of preferred shares	–	–	(9,521,163)	–	–	–	–	–	–	–	–	–	–	–	(9,521,163)	–	(9,521,163)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,539,185	2,539,185
Other equity reserve	–	–	–	220,558	–	–	–	–	–	–	–	–	215,915	–	436,473	5,265	441,738
Effect of change in accounting policy on borrowing costs (Note 2)	–	–	–	–	–	–	–	–	–	–	–	–	(135,424)		(135,424)	–	(135,424)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(734,614)	–	–	(734,614)	734,614	–	–	–	–
BALANCES AT DECEMBER 31, 2019	**₱10,821,389**	**₱35,906,231**	**₱8,538,837**	**₱1,024,653**	**₱–**	**₱692,552**	**₱4,619,445**	**(₱1,203,707)**	**₱12,726,318**	**₱–**	**₱1,203,707**	**₱18,038,315**	**₱112,604,635**	**(₱12,519)**	**₱186,921,541**	**₱67,086,030**	**₱254,007,571**

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱31,263,071**	₱25,351,422	₱18,077,711
Adjustments for:			
Equity in net earnings of associates (Note 11)	**(14,857,739)**	(8,029,577)	(4,022,207)
Depreciation and amortization (Notes 12, 13 and 14)	**5,235,817**	4,160,956	3,721,723
Gain on disposal of:			
Other noncurrent assets (Notes 12, 13 and 28)	**(829,758)**	(6,086,834)	(4,163,507)
AFS investments (Notes 7 and 28)	**–**	–	(7,914)
Provision for losses (Notes 8 and 26)	**2,862,442**	1,454,773	891,490
Movement in accrued retirement benefits (Note 23)	**(1,153,690)**	1,133,427	642,387
Finance income (Note 27)	**(146,253)**	(206,641)	(157,100)
Finance costs (Note 27)	**450,841**	145,457	141,937
Dividend income (Note 28)	**(145,704)**	(87,517)	(62,143)
Share in losses of joint venture (Notes 11 and 28)	**44,488**	62,886	58,717
Mark-to-market gain on financial assets at FVTPL (Note 28)	**(10,018)**	(17,234)	(59,513)
Operating income before changes in working capital	**21,663,517**	17,881,118	15,061,581
Decrease (increase) in:			
Financial assets at FVTPL	**(2,675,012)**	(4,247,368)	(17,395)
Receivables	**(76,418,419)**	(80,086,379)	(74,827,496)
Inventories	**628,416**	41,335	(515,290)
Other current assets	**(899,998)**	(6,533,145)	(1,815,226)
Increase (decrease) in:			
Deposit liabilities	**92,702,273**	91,880,892	66,260,295
Financial liabilities at FVTPL	**(225,029)**	127,126	110,690
Accounts payable and accrued expenses	**3,878,633**	750,406	5,063,878
Other current and noncurrent liabilities	**18,824,568**	17,865,175	(2,291,291)
Cash generated from operations	**57,342,461**	37,679,160	7,029,746
Dividends received (Notes 11, 22 and 28)	**201,880**	4,970,678	3,972,939
Contributions to retirement plan	**–**	(755,084)	(1,474,099)
Interest paid	**(348,849)**	(384,994)	(141,937)
Interest received	**183,812**	183,312	157,100
Income taxes paid, including creditable withholding and final taxes	**(4,016,112)**	(4,686,578)	(3,849,518)
Net cash from operating activities	**53,363,192**	37,006,494	5,694,231

(Forward)

	Years Ended December 31		
	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Financial assets at FVTOCI (Note 7)	**(₱100,926,015)**	(₱25,601,160)	₱–
Financial assets at amortized cost	**(81,024,195)**	(73,040,529)	–
Held to maturity investments	**–**	–	(2,629,588)
Investment properties (Note 13)	**(2,557,645)**	(461,123)	(1,048,872)
Property, plant and equipment (Note 12)	**(7,324,348)**	(5,153,022)	(5,111,373)
Software (Note 14)	**(659,818)**	(344,334)	(1,036,864)
Distribution network access (Note 14)	**–**	–	(286,751)
AFS investments (Note 7)	**–**	–	(4,607,513)
Investment in joint venture and associates (Note 11)	**8,818,578**	1,534,000	(622,000)
Proceeds from sale of:			
Financial assets at FVTOCI (Note 7)	**33,742,338**	43,059,193	–
AFS investments (Note 7)	**–**	–	2,718,542
Other assets (Notes 12 and 13)	**(810,809)**	(588,684)	4,479,685
Advances extended to affiliates	**(804)**	(7)	(106,158)
Net cash used in investing activities	**(150,742,718)**	(60,595,666)	(8,250,892)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term debts (Note 19)	**3,100,000**	2,000,000	–
Bill and acceptance payable (Note 17)	**1,465,130,227**	26,166,148	8,030,740
Long-term debts (Note 19)	**51,899,720**	17,056,006	–
Proceeeds from issuance of stocks	**11,850,316**	–	–
Payments of:			
Bill and acceptance payable (Note 17)	**(1,422,555,288)**	–	–
Dividends (Note 30)	**(3,330,741)**	(2,183,635)	(1,947,850)
Principal portion of lease liabilities	**(775,341)**		
Stock issuance costs	**–**	(15,000,000)	–
Short-term debts (Note 19)	**–**	(1,500,000)	(200,000)
Long-term debts (Note 19)	**–**	–	(3,978,600)
Net cash from financing activities	**105,318,893**	26,538,519	1,904,290
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**7,939,367**	2,949,347	(652,371)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**176,973,765**	174,024,418	174,676,789
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱184,913,132**	₱176,973,765	₱174,024,418

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information and Authorization for Issue of the Consolidated Financial Statements

Corporate Information

LT Group, Inc. ("LTG" or the "Company") is a stock corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. On September 22, 1995, the Philippine SEC approved the change in the Company's primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation ("Tangent" or the "Parent Company"). The share swap resulted in LTG wholly owning TDI and Tangent increasing its ownership in LTG to 97.0%. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

After a series of restructuring activities in 2012 and 2013, LTG has expanded and diversified its investments to include the beverages, tobacco, property development and banking businesses, all belonging to Mr. Lucio C. Tan and his family and assignees (collectively referred to as the "Controlling Shareholders"). These business segments in which LTG and subsidiaries (collectively referred to as "the Group") operate are described in Note 4 to the consolidated financial statements.

As of December 31, 2019 and 2018, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

The official business address of the Head Office is 11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5, Bonifacio Global City, Taguig City.

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 were authorized for issue by the Board of Directors (BOD) on March 10, 2020.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets and liabilities at FVTPL and financial assets at FVTOCI that have been measured at fair value, and land and land improvements, plant buildings and building improvements, and machineries and equipment that have been measured at revalued amounts. The consolidated financial statements are presented in Philippine peso (Peso), the functional and presentation currency of LTG. All values are rounded to the nearest thousand Peso, except when otherwise indicated.

The consolidated financial statements of LTG have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 as discussed in the Changes in Accounting Policies section below.

Basis of Consolidation

The consolidated financial statements include the financial statements of LTG and the following subsidiaries:

	Percentage of Ownership						
	2019		2018 (Note 37)		2017		
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Country of Incorporation
Distilled Spirits							
Tanduay Distillers, Inc. (TDI) and subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Absolut Distillers, Inc. (ADI)	**–**	**96.0**	–	96.0	–	96.0	Philippines
Asian Alcohol Corporation (AAC)	**–**	**95.0**	–	95.0	–	95.0	Philippines
Tanduay Brands International, Inc. (TBI)[1]	**–**	**100.0**	–	100.0	–	100.0	Philippines
Beverages							
Asia Brewery, Incorporated (ABI) and subsidiaries	**99.9**	**–**	99.9	–	99.9	–	Philippines
Agua Vida Systems, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Interbev Philippines, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Waterich Resources Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Packageworld, Inc.	**–**	**99.9**	–	99.9	–	99.9	Philippines
AB Nutribev Corp.	**–**	**99.9**	–	99.9	–	99.9	Philippines
Asia Pacific Beverage Pte. Ltd. (APB Singapore)	**–**	**99.9**	–	99.9	–	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited (APB Myanmar) [2]	**–**	**90.0**	–	90.0	–	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	**97.7**	**–**	97.7	–	97.7	–	Philippines
Fortune Tobacco Corporation (FTC)	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	**100.0**	**–**	100.0	–	100.0	–	Philippines
Paramount Landequities, Inc. (PLI) and Subsidiaries	**100.0**	**–**	100.0	–	100.0	–	Philippines
Eton Properties Philippines, Inc. (Eton)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Belton Communities, Inc. (BCI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton City, Inc. (ECI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
FirstHomes, Inc. (FHI)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Eton Properties Management Corporation (EPMC)	**–**	**99.6**	–	99.6	–	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) [3]	**80-100**	**–**	80-100	–	80-100	–	Various
Philippine National Bank (PNB) and Subsidiaries[4]	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Forex, Inc.	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	**–**	**56.5**	–	56.5	–	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	**–**	**56.5**	–	56.5	–	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	**–**	**56.5**	–	56.5	–	56.5	USA
PNB RCI Holding Co. Ltd.	**–**	**56.5**	–	56.5	–	56.5	USA
PNB Remittance Co. (Canada)	**–**	**56.5**	–	56.5	–	56.5	Canada
PNB Europe PLC	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	**–**	**56.5**	–	56.5	–	56.5	Hong Kong
PNB Italy SpA (PISpA)	**–**	**–**	–	–	–	–	Italy
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	**–**	**50.8**	–	50.8	–	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	**–**	**50.8**	–	50.8	–	50.8	Philippines
PNB Savings Bank	**–**	**56.5**	–	56.5	–	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	**–**	**56.5**	–	56.5	–	56.5	United Kingdom
Allied Commercial Bank (ACB)	**–**	**55.9**	–	55.9	–	55.9	Republic of China

(Forward)

	Percentage of Ownership						
	2019		2018 (Note 37)		2017		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) [5]	–	**44.0**	–	44.0	–	24.8	Philippines
Allied Leasing and Finance Corporation (ALFC)	–	**57.2**	–	57.2	–	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	–	**51.0**	–	51.0	–	28.8	Hong Kong
ACR Nominees Limited	–	**51.0**	–	51.0	–	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	–	**27.8**	–	27.8	–	15.7	USA
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) [6]	**100.0**	–	100.0	–	–	–	Singapore
Mabuhay Digital Technologies, Inc. (MDTI)	–	**100.0**	–	100.0	–	–	Philippines
Mabuhay Digital Philippines, Inc. (MDPI)	–	**100.0**	–	100.0	–	–	Philippines
Asia's Emerging Dragon Corporation	**60.0**	**40.0**	60.0	40.0	–	100.0	Philippines

(1) *Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI started its commercial operations in October 2017. On December 20, 2016, the Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale of Shares of Stocks.*

(2) *On March 16, 2015, the Joint Venture Agreement was entered into by Asia Pacific Beverages Pte. Ltd., a subsidiary of ABI, and Aung Maw Thein (NICK), a citizen of the Union of Myanmar, to establish a private company limited by shares which will manufacture, market, sell and distribute non-alcoholic ready-to-drink or powdered mix beverage products in Myanmar. On March 26, 2016, APB Singapore and NICK incorporated APB Myanmar under the laws of Myanmar, owning 90% and 10% of the shares, respectively. Its commercial operations formally commenced on April 1, 2017.*

(3) *As of December 31, 2019, 2018 and 2017, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 22).*

(4) *Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB.*

(5) *Beginning December 18, 2015, assets and liabilities of APLII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the years ended December 31, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in APLII to Allianz SE (see Note 37).*

(6) *Inccorporated on May 17, 2018, MGHCPL holds direct ownhership interest in MDTI, incorporated on September 28, 2018, to offer shaed services for technology infrastructure across the Group, and MDPI, incorporated on November 7, 2018 to engage business of electronic money, including payment and remittance services.*

Subsidiaries are entities over which the Company has control. Specifically, the Group controls an investee if and only if the Group has:

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

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

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments, where necessary, are made to ensure consistency with the policies adopted by the Group.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated and are considered as an impairment indicator of the assets transferred.

Non-controlling interests
Non-controlling interests represent equity in subsidiaries not attributable, directly or indirectly, to the equity holders of LTG and subsidiaries. Non-controlling interests represents the portion of profit or loss and the net assets not held by the Group. Transactions with non-controlling interests are accounted for as equity transactions.

Non-controlling interests shares in losses even if the losses exceed the non-controlling equity interests in the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative translation differences recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained, and any retained earnings or deficit in consolidated statement of income; and reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate.

<u>Business Combination and Goodwill</u>
Business combinations are accounted for using the acquisition method. As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When a business is acquired, the financial assets and financial liabilities assumed are assessed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group as an acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PFRS 9 either in consolidated statement of income or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

A CGU to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the Group shall recognize the impairment loss. Impairment losses relating to goodwill cannot be reversed in subsequent periods.

The Group performs its impairment test of goodwill on an annual basis every December 31 or earlier whenever events or changes in circumstances indicate that goodwill may be impaired.

Common control business combinations
Where there are business combinations involving entities that are ultimately controlled by the same ultimate parent (i.e., Controlling Shareholders) before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts for such business combinations in accordance with the guidance provided by the Philippine Interpretations Committee Q&A No. 2011-02, PFRS 3.2 - *Common Control Business Combinations*. The purchase method of accounting is used, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered. In cases where the transaction has no commercial substance, the business combination is accounted for using the pooling of interest method.

In applying the pooling-of-interests method, the Group follows the Philippine Interpretations Committee Q&A No. 2012-01, PFRS 3.2 - *Application of the Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements,* which provides the following guidance:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.

- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.

- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.

- As a policy, comparatives are presented as if the entities had always been combined.

Changes in Accounting Policies and Disclosures
Starting January 1, 2019, the Group applied for the first time the following new and amended accounting standards and interpretations.

New Standard and Interpretation
- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases,* Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

  The Group adopted PFRS 16 using the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The effects of adoption of PFRS 16 as at January 1, 2019 follows:

	Increase (Decrease)
Consolidated statement of financial position:	
Right-of-use (ROU) assets (included under 'Property, plant and equipment')	₱3,126,156
Prepayments (under 'Other current assets')	(5,272)
Accrued rent (included under 'Accounts payable and accrued expenses')	(216,012)
Lease liabilities - (included under 'Current portion of long-term debts' and 'Long-term debts - net of current portion')	3,336,896

The Group has lease contracts for branch offices/premises, office and parking spaces and land where the property, plant and equipment and investment properties are constructed**.** Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to the *Leases* section below for the accounting policy prior to January 1, 2019.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Refer to the *Leases* section below for the accounting policy beginning January 1, 2019.

Leases previously accounted for as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months from the date of initial application;
- Excluded the initial direct costs from the measurement of the ROU assets at the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at January 1, 2019:
- Property, plant and equipment and investment properties were recognized amounting to ₱2,857.5 million and ₱234.2 million, respectively, representing the amount of ROU assets set up on transition date.
- Lease liabilities of ₱3,336.9 million were recognized.
- Prepayments of ₱5.3 million and accounts payable and accrued expenses of ₱245.2 million related to previous operating leases arising from straight-lining under PAS 17 were derecognized.

As of January 1, 2019, the weighted average incremental borrowing rate applied by the Group to the lease liabilities ranges from 7.02% to 8.53%. The lease liabilities at as January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows:

Operating lease commitments as at December 31, 2018	₱4,379,422
Commitments relating to:	
Leases of short-term and low-value assets	(679,474)
Renewal periods not included in operating lease commitments as at December 31, 2018	15,149
Total gross lease payments as of January 1, 2019	3,715,097
Weighted average incremental borrowing rate at January 1, 2019	7.02% to 8.53%
Lease liabilities recognized as at January 1, 2019	₱3,336,896

Due to the adoption of PFRS 16, the Group's operating income in 2019 improved, while its finance cost increased. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 did not have any impact on equity in 2019, since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application.

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

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

  The interpretation specifically addresses the following:
  - whether the Group considers uncertain tax treatments separately
  - the assumptions the Group makes about the examination of tax treatments by taxation authorities
  - how the Group determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - how an entity considers changes in facts and circumstances

  The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the Group shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments. Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Based on its assessment and in consultation with its tax counsel, the Group determined that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

Accordingly, the Interpretation did not have significant impact on the consolidated financial statements of the Group.

Amendments to Accounting Standards
The adoption of the following amendments and improvements to accounting standards as at January 1, 2019 did not have an impact on the financial statements of the Group:

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

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the consolidated financial statements of the Group.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*

    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

- Adoption of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, *Borrowing Cost*) for the Real Estate Industry

  In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue is/will be recognized over time under par. 35(c) of IFRS 15. IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a qualifying asset under PAS 23 considering that these inventories are ready for their intended sale in their current condition.

  The IFRIC agenda decision would change the Group's current practice of capitalizing borrowing costs on real estate projects with pre-selling activities.

  On February 21, 2020, the Philippine SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the Real Estate Industry by deferring the implementation of the above IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, the Real Estate Industry will adopt the IFRIC agenda decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC agenda decision.

  For real estate companies that avail of the deferral, the SEC requires disclosure in the Notes to the Financial Statements of the accounting policies applied, a discussion of the deferral of the subject implementation issues, and a qualitative discussion of the impact in the financial statements had the IFRIC agenda decision been adopted.

  The Group did not avail of the relief provided by the SEC and instead adopted the IFRIC agenda decision effective January 1, 2019 since the amount involved is immaterial impact. The adoption resulted in a reduction in Retained earnings by ₱135.42 million, Real estate inventories (included under 'Inventories') by ₱52.17 million, and Investment properties by ₱83.25 million as at January 1, 2019.

  Borrowing costs capitalized in real estate inventories that were subsequently reclassified to investment properties are also derecognized.

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

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

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

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

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2019 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Significant Accounting Policies Applicable to the Group

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated statement of financial position based on current/
noncurrent classification. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:
- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

<u>Fair Value Measurement</u>
The Group measures certain financial instruments and nonfinancial assets at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost and investment properties carried at cost are disclosed in Note 34.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as properties and financial assets at FVTPL and financial assets at FVTOCI. Involvement of external valuers is decided upon annually by the respective segment management after discussion with and approval by the audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

Cash and Cash Equivalents

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

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value.

Financial Instruments – Initial Recognition

Date of recognition

The Group recognizes purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace on settlement date (i.e., the date that an asset is delivered to or by the Group), while derivatives are recognized on trade date (i.e., the date that the Group commits to purchase or sell). The Group recognizes deposits, amounts due to banks and customers and loans when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

Financial Instruments – Classification and Subsequent Measurment

The Group classifies and measures financial assets at FVTPL unless these are measured at FVTOCI or at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing those financial assets.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than insignificant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL. Only financial assets that pass the SPPI test are eligible to be measured at FVTOCI or at amortized cost.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

For financial liabilities, the Group classifies them as either financial liabilities at FVTPL or financial liabilities at amortized cost.

Derivatives recorded at FVTPL
PNB and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These contracts are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes . Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and investment securities gains - net' except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets
Financial assets are measured at FVTPL unless these are measured at FVTOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost.

The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than insignificant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL. Only financial assets that pass the SPPI test are eligible to be measured at FVTOCI or at amortized cost.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets at FVTPL. Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at Financial assets at FVTPL , irrespective of the business model. Financial assets at FVTPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of income.

Financial Assets at FVTOCI. Financial assets at FVTOCI include debt and equity securities. After initial measurement, financial assets at FVTOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVTOCI are excluded, net of tax as applicable, from the reported earnings and are included in the consolidated statement of comprehensive income as 'Net changes in fair value of financial assets at FVTOCI/AFS investments'.

Debt securities at FVTOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVTOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVTOCI, is reported in the consolidated statement of income. Interest earned on holding debt securities at debt securities at FVTOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVTOCI are disposed of, the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is recognized as 'Trading and securities gain (loss) - net' under 'Banking revenue' in the consolidated statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit losses' in the consolidated statement of income.

Equity securities designated at FVTOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVTOCI are recognized in the consolidated statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is reclassified to 'Retained earnings' or any other appropriate equity account upon disposal. Equity securities at FVTOCI are not subject to impairment assessment.

Financial assets at amortized cost. Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statement of financial position captions 'Cash and cash equivalents' and 'Loans and receivables'.

'Loans and Receivables' also include receivables arising from transactions on credit cards issued directly by the Group. Furthermore, 'Loans and Receivables' include the aggregate rental on finance lease transactions and notes receivables financed by PNB-IBJL Leasing and Finance Corporation (PILFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and Receivables' (included in 'Unearned and other deferred income').

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income. Losses arising from credit losses are recognized in 'Provision for impairment, credit and other losses' in the consolidated statement of income.

Financial liabilities
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an

effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Gains or losses on liabilities held for trading are recognised in the consolidated statement of income.

Policies applicable prior to January 1, 2018
Financial assets or financial liabilities held-for-trading
Financial assets or financial liabilities held for trading (classified as 'Financial Assets at FVTPL' or 'Financial Liabilities at FVTPL') are recorded in the consolidated statement of financial position at fair value. Changes in fair value relating to the held-for-trading (HFT) positions are recognized in 'Trading and investment securities gains - net' under "Banking revenue". Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Other income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVTPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net' under "Banking revenue". Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Other income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the consolidated statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the consolidated statement of income under 'Provision for impairment, credit and other losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized as ‘Foreign exchange gains-net’ in the consolidated statement of income.

Loans and receivables
Significant accounts falling under this category are ‘Loans and receivables’ and ‘Cash and cash equivalents’.

These are non-derivative financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVTPL or designated as AFS investments.

‘Loans and Receivables’ also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, ‘Loans and Receivables’ include the aggregate rental on finance lease transactions and notes receivables financed by PILFC and ALFC. Unearned income on finance lease transactions is shown as a deduction from ‘Loans and Receivables’ (included in ‘Unearned and other deferred income’).

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in ‘Interest income’ in the consolidated statement of income. Losses arising from impairment are recognized in ‘Provision for impairment, credit and other losses’ in the consolidated statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as ‘Financial Assets at FVTPL’, ‘HTM Investments’ or ‘Loans and Receivables’. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as ‘Net change in unrealized gain (loss) on AFS investments’ in the consolidated statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as ‘Trading and investment securities gains - net’ in the consolidated statement of income. Interest earned on holding AFS debt investments are reported as ‘Interest income’ using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the consolidated statement of income as ‘Other income’ when the right of payment has been established. Losses arising from impairment of such investments are recognized as ‘Provision for impairment, credit and other losses’ in the consolidated statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVTPL, are classified as ‘Deposit Liabilities’, ‘Bills and Acceptances Payable’, ‘Subordinated Debt’ and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability

and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the AFS investments category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

For reclassifications from AFS, the fair value carrying amount at the date of reclassification becomes the new amortized cost and any previous gain or loss that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

Overview of the ECL principles

The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Stage Migration and Significant Increase in Credit Risk

Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12-month ECL.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

Definition of "Default" and "Cure"

A default is considered to have occurred when (a) the obligor is past due for more than 90 days on any material credit obligation to the Group, or (b) the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable. An instrument is considered to be no longer in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

Determining Significant Increase in Credit Risk

At each reporting date, the Group shall assess whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group's assessment of SICR involves looking at (a) quantitative element, (b) qualitative element, and (c) if unpaid for at least 30 days ("backstop").

The quantitative element is being looked through statistical models or credit ratings process or scoring process that captures certain information which the Group shall consider as relevant in assessing changes in credit risk. The Group may also look at the number of notches downgrade of credit risk rating (CRR) or certain thresholds for the probabilities of default being generated from statistical models to determine whether SICR has occurred subsequent to initial recognition date.

Staging Transfer
Credit exposures shall be transferred from Stage 1 to Stage 2 if there is SICR from initial recognition date. Exposures shall be classified as Stage 2 if (a) the exposure have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures; (b) If there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

Exposures shall be transferred from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to their transfer. Quantitative indicator is characterized by payments made within an observation period. Qualitative indicator pertains to the results of assessment of the borrower's financial capacity.

As a general rule, full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or Restructured Loans and Other Credit Exposures
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. Such modifications can be provided depending on the borrower's current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.

If a loan or credit exposure has been renegotiated or modified, and was not derecognized, the Group shall assess whether there has been a SICR by comparing the (a) risk of default at reporting date based on modified terms, and the (b) risk of default at initial recognition date based on original terms.

Purchased or Originated Credit-Impaired Loans
A loan is considered as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition, i. e., acquired/purchased at a deep discounted price. The Group shall only recognize the cumulative changes in lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL
ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability-of-default (PD) - an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Exposure-at-default (EAD) - an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.

- Loss-given-default (LGD) - an estimate of the loss arising in case where defaults occurs at a given time. It is based on the difference between the contractual cash flow due and those that the Group would expect to receive, including from any collateral.
- Discount rate – represents the rate to be used to discount an expected loss to a present value at the reporting date using the original effective interest rate determined at initial recognition.

Forward-looking information shall be considered in estimating/determining the 12-month and lifetime PD, EAD and LGD depending on the credit exposure.

Macroeconomic Forecasts, Forward-looking Information and Probability-weighted Scenarios
ECL measurement is determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Forward-looking macroeconomic information and scenarios shall consider:

- Factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, etc.
- Changes in government policies, rules and regulations, such as adjustments to policy rates
- Other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults/losses, etc.

The Group applies a simplified ECL approach for its other loans and receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to product conditions over the span of a given observation period.

Policies applicable prior to January 1, 2018
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investment securities at amortized cost
For financial assets carried at amortized costs such as "Loans and Receivables", "HTM Investments", "Due from BSP", "Due from Other Banks", "Interbank Loans Receivable" and "Securities Held under Agreements to Resell", the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as internal credit risk rating, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under "Other income' in the consolidated statement of income.

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under "Provision for credit losses" in the consolidated statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to 'Recoveries' under 'Miscellaneous income' in the consolidated statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthlymovements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the consolidated statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the consolidated statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting of Financial Instruments
Financial instruments are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Investments in Associates and Joint Ventures
Investment in associates pertains to entities over which the Group has significant influence but not control. Investment in joint ventures pertains to the Group's interest in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control

over the economic activities of the entities. The joint venture arrangements requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its investments in associates and joint ventures using the equity method.

Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associates and joint ventures. The Group's share in the associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' and joint ventures' equity reserves is recognized directly in other comprehensive income. When the Group's share of losses in the associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the associates and joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

Where necessary, adjustments are made to the financial statements of the associates and joint ventures to bring the accounting policies used in line with those used by the Group.

For additional acquisitions resulting to a significant influence over an associate whose original investments were previously held at fair value through other comprehensive income, the changes in fair value previously recognized are reversed through equity reserves to bring the asset back to its original cost. The difference between the sum of consideration and the share of fair value of net assets at date the investment becomes an associate is recognized as goodwill which is retained in the carrying value of the investment or a gain in consolidated net income under "Equity in net earnings of associates".

Upon loss of significant influence over the associate or upon loss of joint control on the jointly controlled entity, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associates and joint ventures upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized either in consolidated statement of income or in consolidated statement of comprehensive income.

Other Current Assets
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises mainly of prepaid importation charges and excise tax, prepaid rentals and insurance premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred.

Prepaid importation charges are applied to respective asset accounts, i.e., inventories and equipment, as part of their direct cost once importation is complete. Prepaid excise taxes are applied to inventory as part of its cost once related raw material item is consumed in the production. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized.

Effective January 1, 2019
Property and equipment
Effective January 1, 2019, it is the Group's policy to classify ROU assets as part of property and equipment. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are initially measured at cost, less any accumulated depreciation and

impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term, as follows:

	Number of Years
ROU assets - branch premises	1 - 25 or the lease term, whichever is shorter (provided that lease term is more than one year)
ROU assets - land	10 - 40 or the lease term, whichever is shorter
ROU assets - warehouse	5 - 15 or the lease term, whichever is shorter
ROU assets - warehouse equipment	5 - 15 or the lease term, whichever is shorter

ROU assets are subject to impairment.

Effective for both periods presented
<u>Property, Plant and Equipment</u>
Property, plant and equipment, other than land and land improvements, plant buildings and building improvements, and machineries and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, accredited and independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of related deferred income tax effect" (presented as part of "Other comprehensive income" in the equity section of the consolidated statement of financial position).

Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

Construction in progress consists of properties in the course of construction for production or administrative purposes, which are carried at cost less any recognized impairment loss. This includes cost of construction and equipment, and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Returnable containers (i.e., returnable bottles and crates) are stated at cost less accumulated depreciation and any impairment in value. Cost of manufactured containers comprises materials used and applicable allocation of fixed and variable labor and overhead cost. Amortization of returnable containers is included under "Selling expenses" account in the consolidated statement of comprehensive income.

Deposit value for the containers loaned to customer is included as part of "Trade payable" under "Accounts payable and accrued expenses" account in the consolidated statement of financial position.

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

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
At appraisal values:	
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
Office and administration buildings	20 - 40
Leasehold improvements	3 - 30 or lease term, whichever is shorter
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the item is derecognized.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any gain or loss resulting from their disposal is recognized in the consolidated statement of income.

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

Effective January 1, 2019
Investment properties
Investment properties also include ROU assets involving real properties that are subleased to other entities.

For those ROU assets that qualify as investment properties, i.e., those land and buildings that are subleased by the Company, these are classified under investment properties in accordance with paragraph 48 of PFRS 16. Consistent with the Group's policy regarding the measurement of investment properties, these assets are subsequently measured at cost less amortization and impairment in value.

Effective for both periods presented
Investment Properties
Investment properties are initially measured at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Any gain or loss on the exchange is recognized in "Net gains on sale or exchange of assets" and presented in the "Others" account in the consolidated statement of income. Foreclosed properties are classified under "Investment properties" upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (*dacion en pago*).

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is calculated on a straight-line basis using the estimated useful life from the time of acquisition of the investment properties.

The estimated useful life of the depreciable investment properties which generally include building and improvements ranges from 5 to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in "Others" in the year of retirement or disposal.

Transfers are made to investment property only when there is a change in use evidenced by cessation of owner-occupation or of construction or development, or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful/economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of the reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Software costs

Software costs, included in “Other noncurrent assets”, are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, other properties, investments in associates and joint ventures, and software costs

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset’s (or cash-generating units’) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations or to the revaluation increment for assets carried at revalued amount, in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Revenue
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Upon adoption of PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized.

Costs and Expenses
Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Selling and general and administrative expenses
Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Taxes and licenses
Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset
- remeasurements of net defined benefit liability or asset

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

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

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

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

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refund from the plan or reduction in future contribution to the plan.

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

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. Capitalization ceases when pre-selling of real estate inventories under construction commences. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVTPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated statement of financial position.

Leases
Policies applicable effective January 1, 2019
The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee
Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Applicable to both periods presented
The Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated statement of financial position under ‘Loans and receivables’ account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in ‘Interest income’ in the consolidated statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated statement of financial position. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under “Other income” account in the consolidated statement of income.

Effective prior to January 1, 2019
In determining whether an arrangement was, or contained a lease, the Group assessed the substance of the arrangement whether the fulfillment of the arrangement was dependent on the use of a specific asset

or assets, and the arrangement conveyed a right to use the asset. After inception of the lease, the Group reassesed the above basis only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

The Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property, plant and equipment" account with the corresponding liability to the lessor included in "Other liabilities" account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to "Finance costs".

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Foreign Currency-denominated Transaction and Translation
The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign Currency Deposit Unit (FCDU) and Overseas Subsidiaries
As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Group, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and

expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in consolidated statement of income.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred income tax

Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

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

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.
Deferred income taxes relating to items recognized directly in OCI are also recognized in OCI and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in consolidated statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and accrued expenses" in the consolidated statement of financial position.

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity
Capital stock is measured at par value for all shares issued by the Group. When the Group issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Preferred shares of subsidiaries issued to Parent Company are own-equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of financial assets at FVTOCI and AFS investments, remeasurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of associates.

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares of stock of the Company held by subsidiaries"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Company.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events After the Reporting Period

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

Segment Reporting

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue
Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that economic benefits will flow to the banking segment and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the banking segment expects to be entitled in exchange for those services.

The banking segment assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The banking segment has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income
The banking segment earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Bancassurance fees*
   Non-refundable access fees are recognized on a straight-line basis over the term of the period of the provision of the access.

   Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

c) *Fee income from providing transaction services*
   Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction.

   Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the banking segment retains no part of the loans for itself or retains part at the same EIR as the other participants.

The banking segment assessed that there is no difference in accounting for service fees and commission income under PFRS 15 and PAS 18.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the banking segment's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The banking segment operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the banking segment. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

Prior to the adoption of PFRS 15, consideration received is allocated between the discounts earned,interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed or have expired. The deferred balance is included under 'Other liabilities' in the statement of financial position.

Upon adoption of PFRS 15 beginning January 1, 2018, the banking segment allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The amount allocated to the loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process (i.e., upon transfer of control under PFRS 15 and transfer of risks and rewards under PAS 18) and when the collectability of the sales price is reasonably assured.

Revenues outside the scope of PFRS 15:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVTOCI, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly

attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the banking segment calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the banking segment reverts to calculating interest income on a gross basis.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24^{th} method except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Insurance contract liabilities.'

Dividend income
Dividend income is recognized when the banking segment's right to receive payment is established.

Trading and investment securities gains - net
'Trading and investment securities gains - net' includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL and gains and losses from disposal of financial assets at FVTOCI/AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the banking segment on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24^{th} method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums. The net changes in these accounts between ends of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Insurance Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately as FVTPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVTPL. The options and guarantees within the insurance contracts issued by the Group are treated as derivative financial instruments which are closely related to the host insurance and therefore not bifurcated subsequently. As such, the Group does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognized in the consolidated statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated statement of financial position as "Securities held under agreements to resell", and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value under "Other noncurrent liabilities". Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value

less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in “Service fees and commission income”, over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in “Provision for impairment and credit losses”. Any financial guarantee liability remaining is recognized in the consolidated statement of income in “Service fees and commission income”, when the guarantee is discharged, cancelled or has expired.

Policy Loans

Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to “Other receivables”.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as “Other liabilities” in the consolidated statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the “Other liabilities” in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Cost (DAC)

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as “Deferred acquisition costs” in the assets section of the consolidated statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Residual Value of Leased Assets and Deposits on Finance Leases

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Nonlife Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the consolidated statement of financial position. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported (IBNR) losses

Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, discharged or cancelled.

Liability Adequacy Test

Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods
Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Sale of goods effective January 1, 2018
The Group enters into a marketing and distributorship agreement in which the Group undertakes to sell the products specified including its quantity indicated in an approved purchased order exclusively to the marketing distributors. No other promised goods or services was specified in the contract or provided based on the customary business practice. This is considered as one performance obligation; hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are delivered.

Sale of commercial bottles effective January 1, 2018
The Group enters into a contract with customer through an approved purchased order which constitute a valid contract as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified in the contract.

- Goods are sold and delivered to customer - the Group undertakes to sell the products specified in the approved purchase order and will deliver the products to the customer’s premises. This is considered as two performance obligations. Hence, base transaction price will be allocated between the sale of goods and delivery costs. The base transaction price is composed of total price less discount and VAT. The Group recognizes revenue at a point in time, once goods are sold and delivered. Based on the customary business practice of the Group, the goods are sold and delivered on the same day.

- Goods are sold and picked up by customer - the contract is effectively modified when goods are picked up by the customer from the warehouse, the entire transaction price attributable to one performance obligation only. The delivery costs previously deducted from freight expenses will be presented as freight income as part of revenue under PFRS 15. Hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are picked up from the warehouse.

Sale of goods and commercial bottles prior to January 1, 2018
Revenue from the sale of goods, included under “Net sales”, is recognized when goods are delivered to and accepted by the customers. Sale of goods are measured at the fair value of the consideration received or receivable, excluding discounts, returns and VAT.

Cost of Consumer Goods Sold
Cost of consumer goods sold is recognized as expense where the related goods are sold.

Consumer Goods Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage
Finished goods	Moving-average	Weighted-average
Work in process	Moving-average	Weighted-average
Raw materials and materials and supplies	Moving-average	Moving-average

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue and Cost Recognition
Real estate sales effective January 1, 2018
The Group derives its real estate sales from sale of residential lots and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on the physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. Based on the monthly project accomplishment report approved by the site project manager which integrates the surveys of performance to date of the construction activities.

Real estate sales prior to January 1, 2018
The Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectability is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. The Group starts recognizing income under percentage-of-completion when the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the consolidated statement of financial position as part of real estate inventories and the deposit as part of "Customers' deposits" account.

On February 14, 2018, the Philippines Interpretation Committee (PIC) issued PIC Q&A 2018-12 (PIC &A) which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 25, 2018 and February 8, 2019, the SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three (3) years.

a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E;
b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D; and
c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H.

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 - Accounting for Cancellation of Real Estate Sales was also deferred.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the Philippine SEC will later prescribe.

The Group availed of the deferral of adoption of the following specific provisions of PIC Q&A. Had these provisions been adopted, it would have the following impact in the consolidated financial statements:

a. The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using the effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2019 and 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.

b. The Group is acting as a principal for the provision of air-conditioning services, common usage services and administration and handling services. This would have resulted to the gross presentation of the related revenue and the related cost and expenses. Currently, the related revenue is presented net of costs and expenses. These would not result to any adjustment in the retained earnings as of January 1, 2018 and net income for the years ended December 31, 2019 and 2018.

Rental income
Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of real estate sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Costs to obtain contract
The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Selling expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Cost of rental income
Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Rooms and other operated departments
Revenue from room rentals and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

Costs of services
Costs of services include expenses incurred by the Group for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

Real Estate Inventories
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and NRV.

Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs; and (d) borrowing costs capitalized prior to start of pre-selling activities for the real estate project.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale. The carrying amount of inventories is reduced through the use of allowance account and the amount of loss is charged to profit or loss.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated statement of financial position, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated statement of financial position, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Commissions
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

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

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of functional currency
Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Peso except for the following entities with functional currency other than the Peso:

Subsidiary	Functional Currency
PNB Guam	United States Dollar
PNB IIC	-do-
PNB RCI	-do-
Nevada	-do-
PNB RCI Holding Co. Ltd.	-do-
ACB	-do-
OHBVI	-do-
ABUK	Great Britain Pound
PNB Europe PLC	-do-
Canada	Canadian Dollar
PNB GRF	Hongkong Dollar
ABCHKL	-do-
ACR Nominees Limited	-do-
APB Singapore	United States Dollar
APB Myanmar	Myanmar Kyat

Assessment of control over the entities for consolidation
The Group has majority-owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority-owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group, through PNB, holds less than 50% of OHBVI's issued share capital. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of PNB's combined voting rights of 70.56%, which is arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

Classification of financial assets
Beginning January 1, 2018, the Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

The SPPI test is the first of two tests that determine the classification of a financial asset. When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

The business model assessment (BMA) is the second test. The BMA reflects how financial assets are managed in order to generate net cash inflows, The Group performs BMA based on the following factors:

- Business objectives and strategies for holding financial assets
- Performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets
- Attendant risks and the tools applied in managing them
- Compensation structure, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions
- Frequency and timing of disposals

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP, particularly the guidelines contained in Circular No. 1011.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding Companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱8.5 billion and ₱18.1 billion as equity as of December 31, 2019 and 2018 (see Note 30).

Revenue recognition on real estate sales
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (b) assessment of the probability that the entity will collect the consideration from the buyer; (c) determination of the transaction price; (d) application of the output/input method as the measure of progress in determining real estate revenue; (e) determination of the actual costs incurred as cost of goods sold; and (f) recognition of cost to obtain a contract.

a) *Existence of a contract*
The Group's primary document for a contract with a customer is a signed contract to sell. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

b) *Revenue recognition method and measure of progress*
The Group concluded that revenue for real estate sales is to be recognized over time because (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customer.

c) *Identifying performance obligation*
The Group has various contracts to sell covering residential lots and condominium units. The Group concluded that there is one performance obligation in each of these contracts because: (i) for residential lots, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract; (ii) for the contract covering condominium units, the developer has the obligation to deliver the house or condominium unit duly constructed on a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Group's service to transfer the title of the real estate unit to the customer.

Revenue recognition on sale of consumer goods
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint. (d) recognition of revenue as the Group satisfies the performance obligation.

a) *Existence of a contract*
   The Group's primary document for a contract with a customer for each type of revenue stream is:

   - *Sale of goods*
     A signed marketing and distributorship agreement with an approved purchased order. Each party's rights regarding the goods to be transferred is clearly identified including the product specification and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

   - *Sale of commercial bottles*
     An approved purchased order with terms clearly identified including the product specification and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

b) *Identifying performance obligation*
   The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

   - *Sale of goods*
     The Group undertakes to sell the products specified including its quantity indicated in an approved purchased order. This is considered as one performance obligation. Based on the customary business practice of the Group, the goods are sold and delivered on the same day.

   - *Sale of commercial bottles*
     Based on management assessment, there are two performance obligations in each of the approved purchase order. The Group undertakes (a) to sell the products specified in the approved purchase order and (b) to deliver the products to the customer's premises. These promises to sell and to deliver are separately identifiable since they are not highly interrelated with each other within the context of the contract. However, the contract is effectively modified as one performance obligation once the customer decide to pick up the goods from the warehouse.

c) *Recognition of revenue as the Group satisfies the performance obligation*
   The Group recognizes its revenue for all revenue streams at a point in time, where the goods are sold and delivered and when services were already rendered.

Operating lease commitments - the Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 38).

Determination of lease term of contracts with renewal and termination options – Group as a lessee – PFRS 16 (applicable effective January 1, 2019)
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements).

Refer to Note 38 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Operating lease commitments - the Group as lessee – effective prior to January 1, 2019
Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, and accordingly, accounts for the lease agreements as operating leases (see Note 38).

Determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates – effective January 1, 2019
Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax assessment, in consultation with its tax counsel, that it is probable that its uncertain tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have significant impact on the consolidated financial statements of the Group.

Classification of properties
The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Bifurcation of embedded derivatives
Where a hybrid instrument is not classified as financial assets at FVTPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Classification of Investment in AB Heineken Philippines, Inc (AB HPI) as Investment in an Associate
In 2016, the Group and Heineken International B.V. (Heineken) established AB HPI, a 50%-owned associate, through a joint venture agreement. The Group has determined that it has significant influence, but no control or joint control, over the operating and financial activities of AB HPI. Accordingly, the Group classified its investment in AB HPI as an investment in an associate.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Provision for expected credit losses of financial assets
For banking segment, The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies.

Elements of the ECL models that are treated as accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively.
- Quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages.
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs.

- Selection of forward-looking information and determination of probability weightings to derive the ECL.

For the other segments, provision matrix was used to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, property collaterals and coverage by letters of credit and other forms of credit insurance).

The assessment of the correlation between historical observed default rates, forecast economic conditions (i.e., gross domestic product and inflation rate) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from Special Purpose Vehicle (SPV), respectively.

Estimation of allowance for credit losses on loans and receivables prior to January 1, 2018
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. The Group determines the allowance for credit losses on loans and receivables on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collection, observable market prices and expected net selling prices of the collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from SPV, respectively.

Estimation of retirement benefits costs and liability
The Group's retirement benefits costs and liability is actuarially computed. This entails using certain assumptions with respect to prospective salary increases, employee turnover rates and discount rates per annum.

Net retirement plan assets as of December 31, 2019 and 2018 amounted to ₱260.0 million and ₱280.5 million, respectively. Net retirement benefits liability amounted to ₱1.7 billion and ₱1.6 billion as of December 31, 2019 and 2018, respectively (see Notes 14 and 23).

Revenue and cost recognition on real estate sales
The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱1.4 billion, ₱1.7 billion and ₱0.8 billion and cost of real estate sales amounting to ₱1.1 billion, ₱1.2 billion and ₱0.5 billion in 2019, 2018 and 2017, respectively (see Note 24).

Impairment of AFS investments prior to January 1, 2018
The computation for the impairment of AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2017, the carrying value of the Group's AFS investments amounted to ₱73.2 billion, net of allowance for impairment losses on AFS equity investments amounting to ₱696.2 million (see Note 7).

Fair values of structured debt instruments and derivatives
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 34 for information on the fair values of these instruments.

Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development (see Note 20).

Measurement of NRV of inventories
The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2019 and 2018 amounted to ₱10.4 billion and ₱12.4 billion, respectively. Certain materials and supplies amounting to ₱0.8 billion and ₱0.7 billion as of December 31, 2019 and 2018, respectively, are carried at NRV (see Note 9).

Leases - Estimating the IBR – effective January 1, 2019
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as risk-free interest rates) when available and is required to make certain entity-specific estimates (such as the Group's stand-alone credit risk rating).

The Group's lease liabilities amounted to ₱3,247.9 million as of December 31, 2019 (see Note 27).

Valuation of property, plant and equipment under revaluation basis
The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱59.8 billion and ₱60.3 billion as of December 31, 2019 and 2018, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2019 and 2018, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2019 and 2018 amounted to ₱27.5 billion and ₱27.5 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2019 and 2018 amounted to ₱6.0 billion and ₱7.6 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount
The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRSs.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2019	2018
	(In Thousands)	
Other current assets (except miscellaneous cash and other cash items) [Note 10]	**₱11,292,722**	₱8,863,642
Investments in associates and joint ventures (Note 11)	**27,254,278**	20,314,141
Property, plant and equipment (Note 12)	**71,899,127**	68,120,694
Investment properties (Note 13)	**32,631,441**	30,318,901
Other noncurrent assets (except net retirement plan assets, refundable and security deposits and goodwill) [Note 14]	**6,857,509**	5,798,886

Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱163.7 million as of December 31, 2019 and 2018 is not impaired (see Note 14).

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

Reversal of legal claims amounted to ₱99.7 million and ₱253.3 million as of December 31, 2019 and 2018, respectively (see Note 38).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT over and other deductible temporary differences, which relate to the parent company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The Company and these certain subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could support the recognition of deferred income tax assets on these NOLCO, excess MCIT over RCIT and other deductible temporary differences totaling to ₱0.9 billion and ₱13.2 billion as of December 31, 2019 and 2018, respectively (see Note 29).

Determination of fair value of shares of APLII and EDR
The Group determined the fair value of the shares of APLII using a combination of the Income Approach and the Market Approach. The Income Approach was based on the present value of the future cash flows over a three-year period, adjusted for the control premium and the lack of marketability discount. Significant management judgment is required to determine the expected future cash flows. The valuation under the Income Approach is most sensitive to discount rate and growth rate used to project cash flows.

4. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, liquor and bioethanol products. The Group conducts its distilled spirits business through TDI and its subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its subsidiaries, associate and joint venture.

- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC, Inc. (PMFTC).

- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its subsidiaries.

- Others, consist of various holding companies (LTG, AEDC, Paramount, Saturn, Shareholdings, and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD of LTG reviews the operating results of the business units to make decisions on resource allocation and assesses performance. Segment revenue and segment expenses are measured in accordance with PFRSs. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statements of income. Finance costs (including interest expense) and income taxes are managed per business segment.

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 19.7% and 4.0% as of December 31, 2019, respectively, and 12.3% and 2.8% as of December 31, 2018 of the Group's consolidated assets and revenues, respectively.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies. TDI's investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group's policy. Certain assets and liabilities of PNB are also adjusted at the consolidated level of LTG to reflect the original carrying values prior to the merger of PNB and ABC.

Segment assets are resources owned and segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated.

Segment revenue and expenses are those directly attributable to the segment except that intersegment revenue and expense are eliminated only at the consolidated level. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The components of capital expenditures reported to the CODM are the acquisitions of property, plant and equipment during the period.

The Group's distilled spirits segment derives revenue from two major distributors which averaged 79%, 85% and 85% of the segment's total revenue in 2019, 2018 and 2017, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

The following tables present the information about the Group's operating segments:

For the year ended December 31, 2019:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	**₱56,615,631**	**₱19,261,735**	**₱15,234,051**	**₱–**	**₱3,132,431**	**₱–**	**₱94,243,848**
Inter-segment	**249,877**	**17,460**	**696,240**	**–**	**–**	**(963,577)**	**–**
	56,865,508	**19,279,195**	**15,930,291**	**–**	**3,132,431**	**(963,577)**	**94,243,848**
Cost of goods sold and services	**19,143,606**	**16,068,978**	**11,643,204**	**–**	**1,107,876**	**(1,161,096)**	**46,802,568**
Gross profit	**37,721,902**	**3,210,217**	**4,287,087**	**–**	**2,024,555**	**197,519**	**47,441,280**
Equity in net earnings (loss) of associates and joint ventures	**(97,608)**	**–**	**(725,985)**	**15,437,243**	**–**	**199,601**	**14,813,251**
	37,624,294	**3,210,217**	**3,561,102**	**15,437,243**	**2,024,555**	**397,120**	**62,254,531**
Selling expenses	**–**	**1,561,758**	**1,338,050**	**–**	**111,616**	**–**	**3,011,424**
General and administrative expenses	**29,627,829**	**661,940**	**1,248,334**	**205,045**	**807,684**	**169,898**	**32,720,730**
Operating income	**7,996,465**	**986,519**	**974,718**	**15,232,198**	**1,105,255**	**227,222**	**26,522,377**
Foreign exchange gains - net	**1,105,918**	**1,599**	**6,064**	**(51,889)**	**(2,228)**	**(9,484)**	**1,049,980**
Finance income	**–**	**1,060**	**27,006**	**369,459**	**105,948**	**(357,220)**	**146,253**
Finance costs	**–**	**(98,948)**	**(166,018)**	**–**	**(364,340)**	**178,465**	**(450,841)**
Others - net	**3,306,872**	**(9,900)**	**96,036**	**150,900**	**434,107**	**17,287**	**3,995,302**
Income before income tax	**12,409,255**	**880,330**	**937,806**	**15,700,668**	**1,278,742**	**56,270**	**31,263,071**
Provision for income tax	**2,470,986**	**204,549**	**539,567**	**98,530**	**378,358**	**5,324**	**3,697,314**
Segment profit	**₱9,938,269**	**₱675,781**	**₱398,239**	**₱15,602,138**	**₱900,384**	**₱50,946**	**₱27,565,757**
Segment profit attributable to:							
Equity holders of the Company	**₱9,858,543**	**₱666,507**	**₱399,380**	**₱15,602,138**	**₱900,384**	**(₱4,309,428)**	**₱23,117,524**
Non-controlling interests	**79,726**	**9,274**	**(1,141)**	**–**	**–**	**4,360,374**	**4,448,233**
Depreciation and amortization expense	**2,660,409**	**575,294**	**1,546,624**	**38,220**	**386,300**	**28,971**	**5,235,818**

Other financial information of the operating segments as of December 31, 2019 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	**₱488,857,140**	**₱12,923,043**	**₱16,840,868**	**₱5,180,278**	**₱9,237,156**	**(₱5,902,547)**	**₱527,135,938**
Noncurrent assets	**665,367,850**	**9,193,536**	**15,700,574**	**22,718,539**	**22,590,537**	**3,123,579**	**738,694,615**
	₱1,154,224,990	**₱22,116,579**	**₱32,541,442**	**₱27,898,817**	**₱31,827,693**	**(₱2,778,968)**	**₱1,265,830,553**
Liabilities:							
Current liabilities	**₱865,580,704**	**₱3,719,389**	**₱7,764,522**	**₱1,317,834**	**₱7,743,432**	**(₱9,464,258)**	**₱876,661,623**
Noncurrent liabilities	**129,363,371**	**875,491**	**1,606,108**	**103,082**	**6,248,863**	**(3,035,556)**	**135,161,359**
	₱994,944,075	**₱4,594,880**	**₱9,370,630**	**₱1,420,916**	**₱13,992,295**	**(₱12,499,814)**	**₱1,011,822,982**
Investments in associates and joint ventures	**₱2,605,473**	**₱–**	**₱21,171**	**₱19,193,993**	**₱–**	**₱5,433,641**	**₱27,254,278**
Equity attributable to:							
Equity holders of the Company	**156,398,876**	**17,341,825**	**23,133,222**	**26,477,901**	**17,835,398**	**(54,265,681)**	**186,921,541**
Non-controlling interests	**2,882,039**	**179,874**	**37,590**	**–**	**–**	**63,986,527**	**67,086,030**
Additions to noncurrent assets:							
Property, plant and equipment	**2,761,203**	**2,878,969**	**794,790**	**80,689**	**20,526**	**(32,479)**	**6,503,698**
Investment properties	**967,611**	**5,814**	**–**	**–**	**1,651,591**	**2,111**	**2,627,127**
Short-term debts	**–**	**200,000**	**2,850,000**	**–**	**–**	**2,100,000**	**5,150,000**
Long-term debts	**68,421,487**	**433,209**	**596,589**	**–**	**6,764,380**	**(3,646,209)**	**72,569,456**

For the year ended December 31, 2018, as restated, Note 37:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱40,243,028	₱18,062,573	₱14,125,559	₱–	₱3,198,735	₱–	₱75,629,895
Inter-segment	243,617	73,385	969,640	–	–	(1,286,642)	–
	40,486,645	18,135,958	15,095,199	–	3,198,735	(1,286,642)	75,629,895
Cost of goods sold and services	9,784,000	14,845,768	10,995,031	–	1,582,655	(1,242,052)	35,965,402
Gross profit	30,702,645	3,290,190	4,100,168	–	1,616,080	(44,590)	39,664,493
Equity in net earnings (loss) of associates and joint ventures	43,847	–	(736,050)	8,501,997	–	156,897	7,966,691
	30,746,492	3,290,190	3,364,118	8,501,997	1,616,080	112,307	47,631,184
Selling expenses	–	1,468,287	1,130,938	–	101,162	–	2,700,387
General and administrative expenses	26,809,340	650,454	1,230,068	123,783	846,640	149,559	29,809,844
Operating income	3,937,152	1,171,449	1,003,112	8,378,214	668,278	(37,252)	15,120,953
Foreign exchange gains - net	954,063	1,176	6,064	121,542	4,757	14,981	1,102,583
Finance income	–	1,345	22,533	278,345	57,320	(152,902)	206,641
Finance costs	–	(49,816)	(75,405)	–	(291,172)	270,936	(145,457)
Others - net	8,573,326	24,043	25,216	68,172	229,268	146,677	9,066,702
Income before income tax	13,464,541	1,148,197	981,520	8,846,273	668,451	242,440	25,351,422
Provision for income tax	3,687,105	239,271	560,609	55,103	189,694	61,379	4,793,161
Segment profit	₱9,777,436	₱908,926	₱420,911	₱8,791,170	₱478,757	₱181,061	₱20,558,261
Segment profit attributable to:							
Equity holders of the Company	₱9,686,388	₱889,910	₱422,720	₱8,791,170	₱478,757	(₱4,074,167)	₱16,194,778
Non-controlling interests	91,048	19,016	(1,809)	–	–	4,255,228	4,363,483
Depreciation and amortization expense	1,788,711	554,067	1,462,636	27,094	312,875	21,742	4,167,125

Other financial information of the operating segments as of December 31, 2018 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱418,837,342	₱12,028,921	₱13,881,507	₱13,140,794	₱10,664,925	(₱10,172,366)	₱458,381,123
Noncurrent assets	575,865,487	8,106,084	15,531,323	17,128,451	20,817,385	1,946,955	639,395,685
	₱994,702,829	₱20,135,005	₱29,412,830	₱30,269,245	₱31,482,310	(₱8,225,411)	₱1,097,776,808
Liabilities:							
Current liabilities	₱777,166,704	₱2,813,098	₱5,580,065	₱304,374	₱6,105,768	(₱16,145,518)	₱775,824,491
Noncurrent liabilities	85,001,591	556,868	798,342	103,756	8,227,741	(3,926,369)	90,761,929
	₱862,168,295	₱3,369,966	₱6,378,407	₱408,130	₱14,333,509	(₱20,071,887)	₱866,586,420
Investments in associates and joint ventures	₱2,415,414	₱–	₱305,413	₱13,553,425	₱–	₱4,039,889	₱20,314,141
Equity attributable to:							
Equity holders of the Company	129,639,681	16,607,026	22,997,974	29,861,115	17,148,801	(43,287,898)	172,966,699
Non-controlling interests	2,894,853	158,013	36,449	–	–	55,134,374	58,223,689
Additions to noncurrent assets:							
Property, plant and equipment	3,020,666	661,067	1,319,686	68,003	34,453	31,929	5,135,804
Investment properties	833,864	–	–	1,143,611	2,358,291	–	4,335,766
Short-term debts	–	200,000	2,050,000	–	–	(200,000)	2,050,000
Long-term debts	15,661,372	–	–	–	7,190,965	(4,206,185)	18,646,152

For the year ended December 31, 2017, as restated, Note 37:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱32,124,835	₱16,704,933	₱12,948,796	₱–	₱2,233,063	₱–	₱64,011,627
Inter-segment	274,244	89,388	944,440	–	–	(1,308,072)	–
	32,399,079	16,794,321	13,893,236	–	2,233,063	(1,308,072)	64,011,627
Cost of goods sold and services	6,339,368	14,077,274	9,591,814	–	808,582	(1,137,228)	29,679,810
Gross profit	26,059,711	2,717,047	4,301,422	–	1,424,481	(170,844)	34,331,817
Equity in net earnings (loss) of associates and joint ventures	59,215	–	(636,330)	4,396,320	–	144,300	3,963,505
	26,118,926	2,717,047	3,665,092	4,396,320	1,424,481	(26,544)	38,295,322
Selling expenses	–	1,319,102	1,326,726	–	46,597	–	2,692,425
General and administrative expenses	21,968,056	584,829	1,086,694	141,044	684,931	119,257	24,584,811
Operating income	4,150,870	813,116	1,251,672	4,255,276	692,953	(145,801)	11,018,086
Foreign exchange gains (losses) - net	1,674,370	(1,307)	3,772	23,408	(149)	1,208	1,701,302
Finance income	–	215	25,012	101,413	44,556	(14,096)	157,100
Finance costs	–	(33,206)	(50,900)	–	(355,120)	297,289	(141,937)
Others - net	5,054,045	54,361	(37,647)	71,369	129,858	71,174	5,343,160
Income before income tax	10,879,285	833,179	1,191,909	4,451,466	512,098	209,774	18,077,711
Provision for income tax	2,322,213	202,052	639,729	19,110	164,458	149,493	3,497,055
Segment profit	₱8,557,072	₱631,127	₱552,180	₱4,432,356	₱347,640	₱60,281	₱14,580,656
Segment profit attributable to:							
Equity holders of the Company	₱4,830,426	₱623,802	₱552,180	₱4,413,740	₱346,319	₱64,306	₱10,830,773
Non-controlling interests	3,726,646	7,325	–	18,616	1,321	(4,025)	3,749,883
Depreciation and amortization expense	1,519,111	514,624	1,393,040	19,040	254,105	21,803	3,721,723

Other financial information of the operating segments as of December 31, 2017 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱375,392,442	₱12,959,935	₱12,590,611	₱11,508,813	₱11,179,580	(₱7,043,863)	₱416,587,518
Noncurrent assets	448,155,535	7,105,438	15,305,077	14,516,726	18,545,874	(3,120,479)	500,508,171
	₱823,547,977	₱20,065,373	₱27,895,688	₱26,025,539	₱29,725,454	(₱10,164,342)	₱917,095,689
Liabilities:							
Current liabilities	₱664,985,426	₱3,483,340	₱4,355,838	₱303,905	₱4,892,439	(₱12,623,125)	₱665,397,823
Noncurrent liabilities	51,413,216	623,725	1,011,573	84,530	8,143,165	(4,893,758)	56,382,451
	₱716,398,642	₱4,107,065	₱5,367,411	₱388,435	₱13,035,604	(₱17,516,883)	₱721,780,274
Investments in associates and joint ventures	₱2,363,757	₱–	₱1,032,149	₱11,447,030	₱–	₱2,387,989	₱17,230,925
Equity attributable to:							
Equity holders of the Company	61,602,401	15,819,758	22,484,240	25,637,104	16,689,850	6,081,150	148,314,503
Non-controlling interests	45,546,934	138,550	44,037	–	–	1,271,391	47,000,912
Additions to noncurrent assets:							
Property, plant and equipment	1,930,786	423,237	1,886,560	47,942	28,785	11,016	4,328,326
Investment properties	625,660	–	–	51,233	1,741,479	–	2,418,372
Short-term debts	–	880,000	1,550,000	–	–	(880,000)	1,550,000
Long-term debts	–	–	–	–	6,080,147	(4,490,000)	1,590,147

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Cash and other cash items	**₱33,823,608**	₱21,298,919
Cash equivalents:		
Due from *Bangko Sentral ng Pilipinas* (BSP)	**105,981,801**	102,723,312
Due from other banks	**17,758,143**	21,003,079
Interbank loans receivable	**24,831,816**	11,248,455
Securities held under agreements to resell	**2,517,764**	20,700,000
	₱184,913,132	₱176,973,765

a. Cash and other cash items consist of cash on hand and in banks and short-term investments. Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

b. Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.

c. Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Notes 24 and 27).

6. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss consist of:

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Government securities	**₱8,503,822**	₱8,457,713
Private debt securities	**3,130,156**	415,583
Equity securities	**1,455,435**	545,148
Derivative assets (Notes 21 and 33)	**373,040**	574,628
Unit investment trust fund (UITF)	**6,927**	791,278
	₱13,469,380	₱10,784,350

a. As of December 31, 2019 and 2018, unrealized loss on government and private debt securities amounted to ₱78.8 million and ₱20.7 million, respectively. In 2019, 2018 and 2017, the nominal interest rates range from 2.5% to 9.5%, from 2.8% to 8.4% and from 2.1% to 6.1%, respectively, for the government securities, and from 5.5% to 7.4%, from 3.0% to 7.5%, and from 5.2% to 6.6%, respectively, for the private debt securities.

b. The carrying amount of equity securities includes unrealized loss of ₱1.4 million and ₱7.9 million as of December 31, 2019 and 2018, respectively.

c. On various dates in 2014, the Group invested in PNB Institutional Money Market Fund which is a money market UITF. The investment is subject to a minimum holding period of 30 days. Mark-to-market gains on financial assets at FVTPL amounted to ₱17.8 million, ₱17.2 million and ₱59.5 million in 2019, 2018 and 2017, respectively (see Note 28). Realized gains from redemption of investment presented under finance income amounted to ₱22.8 million in 2019, ₱22.9 million in 2018 and ₱20.2 million in 2017 (see Note 27).

7. Financial Assets at FVTOCI and Financial Assets at Amortized Cost

Financial Assets at FVTOCI

This account consists of:

	2019	2018 (As Restated, Note 37)
	(in thousands)	
Government securities (Note 17)	**₱91,540,723**	₱33,973,977
Other debt securities	**30,390,001**	17,718,844
Equity securities:		
Quoted	**4,174,897**	3,984,660
Unquoted	**1,412,000**	2,129,641
	127,517,621	57,807,122
Noncurrent portion	**(110,549,031)**	(48,122,239)
	₱16,968,590	₱9,684,883

The movements in net unrealized gain (loss) recognized in other comprehensive income follow:

a. For the years ended December 31, 2019, 2018 and 2017, the nominal interest rates of government securities range from 0.2% to 9.5%, 1.8% to 11.6% and 1.1% to 10.6%, respectively.

b. For the years ended December 31, 2019, 2018 and 2017, the nominal interest rates of private debt securities range from 3.5% to 6.9%, 2.6% to 7.4% and 2.6% to 7.4%, respectively.

c. As of December 31, 2019 and 2018, the fair value of financial assets at FVTOCI in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to ₱8.1 billion and ₱11.3 billion, respectively (see Note 17). The counterparties have an obligation to return the securities to PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

d. Other debt securities consist of notes issued by private entities.

e. As of December 31, 2019 and 2018, effective interest rates for the financial assets at FVTOCI investments follow:

	2019	2018
Peso-denominated	**3.00% to 7.00%**	0.41% to 6.30%
Foreign-currency denominated	**0.18% to 7.25%**	1.13% to 6.00%

The net unrealized gains on financial assets at FVTOCI amounted to ₱3.9 billion for the Group, net of deferred income tax effect amounting to ₱214.6 million, and ₱1.4 billion for the Group, net of deferred income tax effect amounting to ₱214.6 million in 2019 and 2018, respectively.

Financial Assets at Amortized Cost

This account consists of:

	2019	2018 (As Restated, Note 37)
Government securities (Note 19)	**₱55,594,860**	₱60,278,202
Private debt securities (Note 19)	**48,655,093**	44,296,923
	104,249,953	104,575,125
Less allowance for expected credit losses (Note 12)	**(3,785,196)**	(3,769,264)
	₱100,464,757	₱100,805,861

In 2019 and 2018, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which remained in Stage 1 and amortization of the corresponding gross figures.

On various dates in April 2019, the Parent Company sold a portion of its investment securities at amortized cost with a carrying value of ₱29.5 million and corresponding gain of ₱0.2 million as part of its risk management policies.

As of December 31, 2019 and 2018, the fair value of financial asset at amortized cost investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱21.0 billion and ₱36.3 billion, respectively (see Note 17).

8. Loans and Receivables

Loans and receivables consist of:

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**₱672,252,455**	₱598,931,010
Trade receivables	**15,273,662**	14,311,108
Other receivables	**3,401,409**	3,193,332
	690,927,526	616,435,450
Allowance for credit losses	**(18,747,178)**	(17,773,520)
	672,180,348	598,661,930
Noncurrent portion	**(411,253,754)**	(388,646,568)
	₱260,926,594	₱210,015,362

Finance Receivables

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱616,615,375**	₱539,226,464
Customers' liabilities on acceptances, letters of credit and trust receipts	**10,185,304**	13,996,643
Bills purchased (Note 20)	**1,945,838**	2,222,377
Credit card receivables	**15,869,946**	13,412,063
Finance lease receivables	**3,079,713**	2,928,339
	647,696,176	571,785,886
Other receivables:		
Accounts receivable	**9,932,268**	9,157,522
Accrued interest receivable	**7,814,819**	6,729,172
Sales contract receivables	**6,849,281**	11,916,785
Miscellaneous	**411,102**	582,385
	25,007,470	28,385,864
	672,703,646	600,171,750
Unearned and other deferred income	**(451,191)**	(1,240,740)
	672,252,455	598,931,010
Allowance for credit losses	**(18,413,228)**	(17,309,069)
	653,839,227	581,621,941
Noncurrent portion	**(410,579,450)**	(388,351,850)
	₱243,259,777	₱193,270,091

a. Unquoted debt securities

Unquoted debt instruments include the zero-coupon notes received by PNB from SPV Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. In 2016, PNB obtained additional non-resident unquoted debt investments amounting to ₱3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2019 and 2018, the notes are carried at their recoverable values.

b. Finance lease receivable

An analysis of the Group's finance lease receivables as of December 31 is presented as follows:

	2019	2018
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	**₱1,260,542**	₱1,101,635
Due beyond one year but not over five years	**1,164,893**	1,151,333
Due beyond five years	−	26,034
	2,425,435	2,279,002

(Forward)

	2019	2018
	(In Thousands)	
Residual value of leased equipment		
Due within one year	**₱304,898**	₱298,725
Due beyond one year but not over five years	**349,380**	350,612
	654,278	649,337
Total finance lease receivable	**₱3,079,713**	₱2,928,339

c. Interest income on loans and receivables consists of (see Note 24):

	2019	2018	2017 (As Restated, Note 37)
Receivable from customers and sales contract receivables	**₱39,618,639**	₱29,966,048	₱22,255,272
Unquoted debt securities	**–**	–	146,012
	₱39,618,639	₱29,966,048	₱22,401,284

As of December 31, 2019 and 2018, 71.1% and 64.1%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2019 and 2018, 70.2% and 61.7%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2019, from 1.8% to 9.0% in 2018 and from 2.0% to 8.3% in 2017 for foreign currency-denominated receivables, and from 1.5% to 19.4% in 2019, from 1.5% to 13.0% in 2018 and from 1.9% to 7.9% in 2017 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.3% to 21.0%, 3.3% to 21.0% and 2.70% to 21.00% in 2019, 2018 and 2017, respectively.

Trade Receivables

Trade receivables consist of:

	2019	2018
	(In Thousands)	
Consumer goods	**₱13,899,237**	₱12,916,794
Contract receivables	**1,374,425**	1,348,498
Lease receivables	**–**	45,816
	15,273,662	14,311,108
Allowance for credit losses/doubtful accounts	**(322,710)**	(453,211)
	14,950,952	13,857,897
Noncurrent portion of contract receivables	**(674,304)**	(294,718)
	₱14,276,648	₱13,563,179

a. Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

b. Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to nil, ₱14.3 million and ₱16.5 million in 2019, 2018 and 2017, respectively (see Note 27).

Other Receivables
Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses
Details and movements of allowance for credit losses as follows:

	December 31, 2019			
	Finance Receivables	**Trade Receivables**	**Other Receivables**	**Total**
	(In Thousands)			
Balance at beginning of year	**₱17,309,069**	**₱453,211**	**₱11,240**	**₱17,773,520**
Provisions during the year (Note 26)	**2,448,429**	**11,015**	**–**	**2,459,444**
Reversals during the year	**–**	**(142,017)**	**–**	**(142,017)**
Accounts charged off, transfers and others	**(1,334,270)**	**(501)**	**–**	**(1,343,769)**
Balance at end of year	**₱18,413,228**	**₱322,708**	**₱11,240**	**₱18,747,178**

	December 31, 2018 (As Restated, Note 37)			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	₱20,130,669	₱413,939	₱11,240	₱20,555,848
Provisions during the year (Note 26)	1,703,917	3,601	–	1,707,518
Accounts charged off, transfers and others	(4,525,517)	35,671	–	(4,489,846)
Balance at end of year	₱17,309,069	₱453,211	₱11,240	₱17,773,520

9. Inventories

Inventories consist of:

	2019	2018
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	**₱3,011,993**	₱3,247,739
Beverage	**2,831,328**	2,886,739
	5,843,321	6,134,478
Real estate inventories:		
Condominium and residential units for sale	**457,731**	507,099
Land held for future development	**217,542**	217,542
Subdivision land under development	**3,927,357**	4,543,419
	4,602,630	5,268,060
Fuel, materials and supplies	**915,984**	1,006,896
	11,361,935	12,409,434
At NRV - Materials and supplies	**834,936**	698,770
	₱12,196,871	₱13,108,204

Allowance for inventory obsolescence on materials and supplies amounted to ₱19.8 million and ₱4.1 million as of December 31, 2019 and 2018, respectively.

a. Components of the consumer goods inventories are as follows:

	2019	2018
	(In Thousands)	
Finished goods	**₱1,046,445**	₱667,515
Work in process	**1,816,060**	1,480,638
Raw materials	**2,980,816**	3,986,325
	₱5,843,321	₱6,134,478

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to ₱14.3 billion, ₱17.0 billion and ₱12.2 billion in 2019, 2018 and 2017, respectively (see Note 24).

b. Movements in real estate inventories are set out below:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱5,268,060**	₱6,485,344
Effect of change in accounting policy on borrowing costs (Note 2)	**(135,424)**	–
Construction/development costs incurred	**262,303**	394,855
Transfer from (to) property, plant and equipment and investment properties (Notes 12, 13 and 35)	**2,038**	(282,918)
Disposals and others	**(794,347)**	(1,329,221)
Balance at end of year	**₱4,602,630**	₱5,268,060

10. **Other Current Assets**

	2019	2018
	(In Thousands)	
Creditable withholding taxes (CWT)	**₱4,488,682**	₱4,770,292
Advances to suppliers	**1,629,372**	907,300
Input VAT	**1,519,068**	1,432,793
Prepaid expenses	**1,399,984**	880,089
Deferred reinsurance premiums	**1,135,113**	985,966
Deferred rent	**244,206**	170,162
Excise tax (Note 38)	**185,043**	278,257
Stationeries, office supplies and stamps on hand	**86,843**	99,176
Miscellaneous cash and other cash items	**86,542**	412,055
Security deposit	**44,132**	129,309
Deferred charges	**3,134**	2,549
Others	**557,146**	411,318
	₱11,379,265	₱10,479,266

a. CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.

b. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.

c. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages (see Note 38).

d. Prepaid expenses include prepaid importation charges amounting to ₱521.4 million and ₱114.3 million as of December 31, 2019 and 2018, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits.

e. Others include interoffice floats and advances to contractors.

11. Investment in Associates and Joint Ventures

Investments in Associates and Joint Ventures
The Group has the power to participate in the financial and operating policy decisions of PMFTC, Victorias Milling Company, Inc. (VMC), AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and ALI-Eton Property Development Corporation (AEPDC) which are jointly controlled entities.

	Ownership		Amount	
	2019	2018	**2019**	2018
			(In Thousands)	
Associates:				
PMFTC	**49.6%**	49.6%	**₱18,418,620**	₱12,818,935
VMC	**30.9%**	30.9%	**2,898,208**	2,648,053
APLII	**44.0%**	44.0%	**2,605,473**	2,415,414
AB HPI	**50.0%**	50.0%	−	274,897
Joint Ventures:				
ABI Pascual Holdings	**50.0%**	50.0%	**21,171**	30,516
AEPDC	**50.0%**	50.0%	**3,310,806**	2,126,326
			₱27,254,278	₱20,314,141

Investment in PMFTC
Details of investment in PMFTC are as follows:

	2019	2018
	(In Thousands)	
Acquisition cost	**₱13,483,541**	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	**(908,866)**	(2,909,390)
Equity in net earnings	**15,396,195**	8,461,642
Cash dividends (Note 22)	**(9,778,726)**	(6,461,118)
Balance at end of year	**4,708,603**	(908,866)
Accumulated share in other comprehensive income	**226,476**	244,260
	₱18,418,620	₱12,818,935

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC’s divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers,* where FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized a gain of about ₱293.0 million each year starting 2011 until 2017 and an outright loss of ₱2.0 billion in 2010, which are included in the “Equity in net earnings” in these periods. Further, as a result of the transfer of selected assets and liabilites, portion of the revaluation increment on FTC’s property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

Summarized financial information of PMFTC, based on its financial statements as of December 31, are set out below:

	2019	2018
	(In Thousands)	
Current assets	**₱47,037,934**	₱28,979,372
Noncurrent assets	**29,206,664**	27,867,259
Current liabilities	**13,449,004**	9,637,631
Noncurrent liabilities	**6,127,518**	4,831,841
Equity	**56,668,076**	42,377,159
Equity interest of the Parent Company	**49.6%**	49.6%
Share in net assets of the acquiree	**28,107,366**	21,019,071
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	**(9,688,746)**	(8,200,136)
Carrying value of investment	**₱18,418,620**	₱12,818,935

Summarized financial information of PMFTC, based on its financial statements as at December 31, 2019 and 2018 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2019	2018	2017
	(In Thousands)		
Revenue	**₱170,872,448**	₱145,305,192	₱117,396,976
Costs and expenses	**(126,819,405)**	(121,412,768)	(105,523,675)
Income before income tax	**44,053,043**	23,892,424	11,873,301
Provision for income tax	**(13,252,072)**	(7,099,376)	(3,575,735)
Net income	**30,800,971**	16,793,048	8,297,566
Other comprehensive income	**(35,854)**	135,435	177,549
Total comprehensive income	**₱30,765,117**	₱16,928,483	₱8,475,115
Group's share of total comprehensive income for the year	**₱16,305,060**	₱8,461,462	₱4,366,968

Investment in VMC
Details of investment in VMC are as follows:

	2019	2018
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	**₱1,459,768**	₱1,459,768
Additions	**–**	–
Balance at end of year	**1,459,768**	1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	**1,139,120**	892,194
Equity in net earnings	**251,171**	246,926
Excess of fair value of net assets of associate over cost of investment	**–**	–
Balance at end of year	**1,390,291**	1,139,120
Share in remeasurement gain on defined benefit plans	**(1,015)**	(9,295)
Balance of convertible notes	**58,460**	58,460
	₱2,907,504	₱2,648,053

On February 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to ₱660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

On May 23, 2017, portions of the convertible notes amounting to ₱58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

The summarized financial information of VMC as of November 30, 2019 and 2018 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2019	2018
	(In Thousands)	
Current assets	**₱2,919,787**	₱3,427,476
Noncurrent assets	**6,588,422**	6,592,729
Current liabilities	**1,246,250**	2,190,518
Noncurrent liabilities	**1,005,420**	1,382,714
Equity	**7,256,539**	6,446,973
Equity interest of the Parent Company	**30.9%**	30.9%
Share in net assets of the acquiree	**2,242,271**	1,992,115
Fair value adjustments and others	**665,233**	655,938
Carrying value of investment	**₱2,907,504**	₱2,648,053

Summarized statements of comprehensive income of VMC for the years ended November 30 are as follows:

	2019	2018	2017
		(In Thousands)	
Revenue	**₱6,343,290**	₱6,080,583	₱9,218,976
Costs and expenses	**(5,296,131)**	(4,949,048)	(8,348,308)
Income before income tax	**1,047,159**	1,131,535	870,668
Provision for income tax	**(234,308)**	(332,421)	(289,427)
Net income	**812,851**	799,114	581,241
Other comprehensive income (loss)	**(3,285)**	(32,781)	(2,843)
Total comprehensive income	**₱809,566**	₱766,333	₱578,398
Group's share of total comprehensive income for the year	**₱250,156**	₱236,769	₱173,652

Investment in AB HPI

On May 6, 2016, AB HPI was incorporated and registered with the Philippine SEC for 1,000 authorized shares at ₱1,000 par value per share under the name of Broncobrew, Incorporated (Broncobrew). The Philippine SEC approved the change in corporate name of Broncobrew to AB Heineken Philippines Inc. on July 12, 2016.

On May 30, 2016, the Group, through ABI, purchased 500 shares of stock of AB HPI for a consideration amounting to ₱5.0 million. On November 15, 2016, the Group purchased additional 782,400 common shares out of the proposed increase in the authorized capital stock of AB HPI for a consideration of ₱782.4 million. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken, the Group sold nonmonetary assets, (i.e., inventories, returnable containers and brands), to AB HPI for a total consideration of ₱782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain from fair valuation amounting to ₱46.3 million.

Details of the investment in an associate as of December 31 are as follows:

	2019	2018
	(In Thousands)	
Beginning balance/acquisition cost	**₱787,400**	₱787,400
Accumulated equity in net earnings:		
Balance at the beginning of the year	**(512,503)**	210,336
Share in net loss of an associate	**(274,897)**	(722,839)
Balance at end of year	**(787,400)**	(512,503)
Ending balance	**₱–**	₱274,897
Cumulative unrecognized share in net losses in ABHPI	**₱441,743**	₱–

Summarized financial information of AB HPI as of December 31, 2019 and 2018 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2019	2018
	(In Thousands)	
Current assets	**₱3,423,754**	₱3,330,048
Noncurrent assets	**2,537,818**	2,190,077
Current liabilities	**3,088,271**	2,702,540
Noncurrent liabilities	**3,765,330**	2,276,335
Equity (capital deficiency)	**(892,029)**	541,250
	50%	50%
Share in net assets of the acquirer	–	270,625
Others	–	4,272
Carrying value of investment	**₱–**	₱274,897

Summarized statements of comprehensive income of AB HPI for the years ended December 31 are as follows:

	2019	2018
		(In Thousands)
Revenue	**₱2,913,073**	₱2,889,832
Costs and expenses	**(4,346,353)**	(4,335,508)
Loss before income tax	**1,433,280**	1,445,676
Provision for income tax	**–**	–
Net loss	**1,433,280**	1,445,676
Other comprehensive loss	**–**	–
Total comprehensive loss	**₱1,433,280**	₱1,445,676
Group’s share of total comprehensive loss for the year	**₱274,897**	₱722,838

Investment in APLII

On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;

- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of PNB and PNB Savings Bank.

The sale of APLII was completed on June 6, 2016 for a total consideration of US$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US$66.0 million (₱3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US$44.9 million (₱2.1 billion) and US$21.1 million (₱1.0 billion), respectively.

PNB will also receive variable annual and fixed bonus earn-out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Group recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The deferred revenue amounting to ₱976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20). Amortization amounting to ₱36.5 million was recognized in 2016 (see Note 28). Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, PNB accounted for its remaining 44% ownership interest in APLII as an associate. At the date of loss of control, PNB's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. PNB recognized gain on remeasurement amounting to ₱1.6 billion in the 2016 consolidated statement of income.

The fair value of the retained equity was based on a combination of the income approach and market approach.

On September 21, 2016, the Philippine SEC approved the amendment of PNB Life Insurance, Inc.'s article of incorporation to reflect the change in corporate name to Allianz-PNB Life Insurance, Inc.

Summarized financial information of APLII as of December 31, 2019 and 2018 follows:

	2019	2018
	(In thousands)	
Current assets	**₱1,287,221**	₱1,260,591
Noncurrent assets	**35,866,453**	28,363,443
Current liabilities	**1,130,146**	1,079,194
Noncurrent liabilities	**33,766,163**	26,504,728
Equity	**2,257,365**	2,040,112
Equity interest of the Parent Company	**44%**	44%
Share in net assets of the acquiree	**993,241**	897,649
Premium on acquisition	**1,601,389**	1,517,765
Carrying value of investment	**₱2,594,630**	₱2,415,414

Summarized statements of total comprehensive income of APLII for the year ended December 31 are as follows:

	2019	2018
	(In Thousands)	
Revenue	**₱3,721,320**	₱2,752,253
Costs and expenses	**(3,881,720)**	(2,602,153)
Net income (loss)	**(160,400)**	150,100
Other comprehensive income	**297,095**	128,594
Total comprehensive income	**₱136,695**	₱278,695
Group's share of total comprehensive income for the year	**₱60,145**	₱122,626

Investment in ABI Pascual Holdings
On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the "venturers") will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to ₱20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to ₱40.2 million. The joint venture has started operations in September 2013.

The Group determined that its advances to ABI Pascual Foods represents the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture.

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

	2019	2018
	(In thousands)	
Current assets	**₱250,991**	₱313,887
Noncurrent assets	**4,031**	1,957
Current liabilities	**205,670**	266,323
Noncurrent liabilities	**13,753**	–
Total equity	**35,599**	49,521

The summarized statements of comprehensive income of ABI Pascual Holdings for the years ended December 31 are as follows:

	2019	2018
	(In Thousands)	
Revenue	**₱353,909**	₱276,630
Costs and expenses	**(364,563)**	(284,356)
Loss before income tax	**(10,654)**	(7,726)
Provision for income tax	**381**	–
Net loss	**(11,035)**	(7,726)
Other comprehensive income	–	–
Total comprehensive loss	**(₱11,035)**	(₱7,726)
Group's share of total comprehensive loss for the year	**(₱5,518)**	(₱3,863)

Investment in AEPDC

On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused ₱20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to ₱252.0 million.

On November 20, 2017, the Company made additional capital infusion amounting to ₱370.0 million for the joint venture's initial purchase of land in exchange for 370,000,000 common shares.

In 2018, the Company made additional capital infusion totaling to ₱1.5 billion for the joint venture's project planning and development and direct operating expenses.

Details of the investment in a joint venture as of December 31 are as follows:

	2019	2018
	(In Thousands)	
Beginning balance/acquisition cost	**₱2,176,000**	₱672,500
Additional capital infusion during the year	**1,195,000**	1,503,500
Accumulated equity in net earnings:		
Balance at the beginning of the year	**(49,674)**	–
Share in net loss of a joint venture*	**(8,973)**	(49,674)
Balance at end of year	**(58,647)**	(49,674)
Ending balance	**₱3,312,353**	₱2,126,326

**Includes catch-up adjustment of share in net loss in prior years*

Summarized financial information of AEPDC as of December 31, 2019 and 2018 follows:

	2019	2018
	(In thousands)	
Current assets	**₱12,780,696**	₱2,685,351
Noncurrent assets	**3,868,199**	9,720,940
Current liabilities	**7,783,092**	8,067,595
Noncurrent liabilities	**2,241,098**	897,227
Equity	**6,624,705**	3,441,469

Summarized statements of total comprehensive income of AEPDC for the year ended December 31 are as follows:

	2019	2018
	(In Thousands)	
Revenue	**₱3,153,413**	₱223,134
Costs and expenses	**(3,126,471)**	(292,911)
Income (loss) before income tax	**26,942**	(69,777)
Provision for income tax	**47,982**	11,677
Net loss	**(21,040)**	(58,100)
Other comprehensive income	**–**	–
Total comprehensive loss	**(₱21,040)**	(₱58,100)
Group's share of total comprehensive loss for the year	**(₱10,520)**	(₱29,050)

Disclosures on Subsidiary with Material Non-controlling Interest
Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2019	2018	2017
		(In Thousands)	
Accumulated balances of material non-controlling interest	**₱2,882,039**	₱47,290,358	₱45,546,934
Net income allocated to material non-controlling interest	**79,726**	3,095,918	3,722,621
Total comprehensive income allocated to material non-controlling interest	**(14,705)**	1,743,424	4,466,764

On February 9, 2013, PNB acquired 100% of the voting common stock of ABC. PNB accounted for the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's intercompany eliminations.

Statements of Comprehensive Income:

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Revenue	**₱56,865,508**	₱40,416,175	₱32,217,391
Cost of services	**(19,143,606)**	(9,784,000)	(6,339,368)
General and administrative expenses	**(29,627,829)**	(25,301,772)	(22,486,549)
Foreign exchange gains - net	**1,105,918**	942,372	1,676,927
Other income - net	**3,209,264**	7,344,532	5,733,233
Income before income tax	**12,409,255**	13,617,307	10,801,634
Provision for income tax	**(2,470,986)**	(3,663,744)	(2,314,935)
Net income	**9,938,269**	9,953,963	8,486,699
Other comprehensive income (loss)	**4,821,405**	(5,728,481)	1,709,495
Total comprehensive income	**₱14,759,674**	₱4,005,110	₱10,196,194

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Net income attributable to:			
Equity holders of the Parent Company	**₱9,858,543**	₱6,637,673	₱4,834,451
Non-controlling interests	**79,726**	3,095,918	3,722,621
Total comprehensive income attributable to:			
Equity holders of the Parent Company	**14,522,733**	5,593,952	5,799,803
Non-controlling interests	**(14,705)**	2,695,099	4,466,764
Dividends declared to non-controlling interests	**3,372**	3,366	35,455

Statements of Financial Position:

	2019	2018
	(In Thousands)	
Current assets	**₱488,857,140**	₱435,407,693
Noncurrent assets	**665,367,850**	559,295,135
Current liabilities	**865,580,704**	776,308,797
Noncurrent liabilities	**129,363,371**	85,859,497
Equity attributable to:		
Equity holders of the Parent Company	**156,398,876**	129,639,681
Non-controlling interest	**2,882,039**	2,894,853

Statements of Cash Flows:

	2019	2018	2017
		(In Thousands)	
Operating	**₱22,079,130**	₱12,816,916	(₱1,637,026)
Investing	**(66,100,996)**	(51,680,279)	(2,913,544)
Financing	**51,891,720**	40,266,286	4,344,472
Net increase (decrease) in cash and cash equivalents	**₱7,869,854**	₱1,402,923	(₱206,098)

12. **Property, Plant and Equipment**

December 31, 2019

	At Appraised Values				At Cost							
	Land and Land Improvements	**Plant Buildings and Building Improvements**	**Machineries and Equipment**	**Subtotal**	**Office and Administration Buildings and Improvements**	**Transportation Equipment**	**Returnable Containers**	**Furniture, Fixtures and Other Equipment**	**Construction in Progress**	**Subtotal**	**Right-of-Use Assets**	**Total**
							(In Thousands)					
Cost												
Balance at beginning of year, as previously reported	**₱40,432,488**	**₱20,947,525**	**₱28,362,171**	**₱89,742,184**	**₱6,846,941**	**₱2,569,749**	**₱4,192,636**	**₱12,504,073**	**₱1,713,838**	**₱27,827,237**	**₱–**	**₱117,569,421**
Effect of adoption of PFRS 16 (Note 38)	–	–	–	–	–	–	–	–	–	–	**3,126,156**	**3,126,156**
Balance at beginning of year, as restated	**40,432,488**	**20,947,525**	**28,362,171**	**89,742,184**	**6,846,941**	**2,569,749**	**4,192,636**	**12,504,073**	**1,713,838**	**27,827,237**	**3,126,156**	**120,695,577**
Additions/transfers (Note 13)	**4,232**	**483,278**	**1,593,260**	**2,080,770**	**346,564**	**304,970**	**415,081**	**1,347,474**	**949,644**	**3,363,733**	**461,918**	**5,906,421**
Disposals/transfers/others (Note 28)	**294,494**	**482,951**	**(1,377,068)**	**(599,623)**	**463,078**	**(101,247)**	**–**	**(240,206)**	**(1,281,189)**	**(1,159,564)**	**–**	**(1,759,187)**
Balance at end of year	**40,731,214**	**21,913,754**	**28,578,363**	**91,223,331**	**7,656,583**	**2,773,472**	**4,607,717**	**13,611,341**	**1,382,293**	**30,031,406**	**3,588,074**	**124,842,811**
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning of year	**1,480,271**	**6,839,475**	**21,104,677**	**29,424,423**	**4,271,514**	**1,855,410**	**3,172,144**	**10,710,742**	**–**	**20,009,810**	**–**	**49,434,233**
Depreciation and amortization	**126,335**	**560,746**	**964,503**	**1,651,584**	**382,717**	**245,787**	**303,997**	**1,093,261**	**–**	**2,025,762**	**654,329**	**4,331,675**
Disposals/transfers/others (Note 28)	**605,566**	**562,019**	**(832,172)**	**335,413**	**(107,390)**	**(161,932)**	**–**	**(888,315)**	**–**	**(1,157,637)**	**–**	**(822,224)**
Balance at end of year	**2,212,172**	**7,962,240**	**21,237,008**	**31,411,420**	**4,546,841**	**1,939,265**	**3,476,141**	**10,915,688**	**–**	**20,877,935**	**654,329**	**52,943,684**
Net Book Value	**₱38,519,042**	**₱13,951,514**	**₱7,341,355**	**₱59,811,911**	**₱3,109,742**	**₱834,207**	**₱1,131,576**	**₱2,695,653**	**₱1,382,293**	**₱9,153,471**	**₱2,933,745**	**₱71,899,127**

December 31, 2018

	At Appraised Values				At Cost (As Restated, Note 37)						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	₱17,026,911	₱19,913,315	₱27,511,183	₱64,451,409	₱5,321,740	₱2,167,740	₱3,984,854	₱11,868,428	₱1,011,378	₱24,354,140	₱88,805,549
Additions/transfers (Note 13)	10,121	483,170	902,054	1,395,345	298,272	432,067	242,686	1,399,115	1,368,319	3,740,459	5,135,804
Net increment in appraised value	23,273,320	(72,400)	–	23,200,920	–	–	–	–	–	–	23,200,920
Disposals/transfers/others (Note 28)	122,136	623,440	(51,066)	694,510	1,226,929	(30,058)	(34,904)	(763,470)	(665,859)	(267,362)	427,148
Balance at end of year	40,432,488	20,947,525	28,362,171	89,742,184	6,846,941	2,569,749	4,192,636	12,504,073	1,713,838	27,827,237	117,569,421
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	1,243,373	6,777,467	20,215,622	28,236,462	3,930,595	1,745,325	2,871,627	8,816,307	–	17,363,854	45,600,316
Depreciation and amortization	236,898	530,550	939,478	1,706,926	302,558	133,048	335,641	948,099	–	1,719,346	3,426,272
Disposals/transfers/others (Note 28)	–	(468,542)	(50,423)	(518,965)	38,361	(22,963)	(35,124)	946,336	–	926,610	407,645
Balance at end of year	1,480,271	6,839,475	21,104,677	29,424,423	4,271,514	1,855,410	3,172,144	10,710,742	–	20,009,810	49,434,233
Net Book Value	₱38,952,217	₱14,108,050	₱7,257,494	₱60,317,761	₱2,575,427	₱714,339	₱1,020,492	₱1,793,331	₱1,713,838	₱7,817,427	₱68,135,188

Right-of-use assets

December 31, 2019

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	**₱1,817,349**	**₱1,185,608**	**₱73,661**	**₱49,538**	**₱3,126,156**
Additions/transfers	**461,918**	**–**	**–**	**–**	**461,918**
Balance at end of year	**2,279,267**	**1,185,608**	**73,661**	**49,538**	**3,588,074**
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	**–**	**–**	**–**	**–**	**–**
Depreciation and amortization	**568,067**	**70,542**	**4,911**	**10,809**	**654,329**
Balance at end of year	**568,067**	**70,542**	**4,911**	**10,809**	**654,329**
Net Book Value	**₱1,711,200**	**₱1,115,066**	**₱68,750**	**₱38,729**	**₱2,933,745**

Revaluation of Land and Land Improvements, Plant Buildings and Machineries and Equipment
The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by Philippine SEC-accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2018, 2016 and 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2019	2018
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	**₱22,060,427**	₱6,062,880
Net revaluation increase	**(395,141)**	16,737,049
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	**(734,614)**	(739,502)
Balance at end of year	**₱20,930,672**	₱22,060,427
Attributable to:		
Equity holders of the Company	**₱12,726,318**	₱12,689,666
Non-controlling interests	**8,204,354**	9,370,761
	₱20,930,672	₱22,060,427

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using the cost model, the carrying amount would be as follows:

	2019	2018
	(In Thousands)	
Cost		
Land and land improvements	**₱8,652,306**	₱8,353,580
Plant buildings and improvements	**17,066,131**	16,099,902
Machineries and equipment	**33,477,421**	33,261,229
	59,195,858	57,714,711

(Forward)

	2019	2018
	(In Thousands)	
Accumulated depreciation		
Land and land improvements	**(₱3,408,293)**	(₱3,425,704)
Plant buildings and improvements	**(10,730,252)**	(10,785,065)
Machineries and equipment	**(15,146,362)**	(15,223,734)
	(29,284,907)	(29,434,503)
	₱29,910,951	₱28,280,208

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Continuing operations:			
Cost of goods sold and services (Note 24)	**₱1,490,522**	₱945,656	₱1,070,108
Selling expenses (Note 25)	**292,805**	321,754	330,508
General and administrative expenses (Note 26)	**2,548,348**	2,158,862	1,780,146
	₱4,331,675	₱3,426,272	₱3,180,762

As of December 31, 2019 and 2018, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to AAC's major rehabilitation of plant facilities, which are expected to be completed in 2019, and PNB's construction of building.

Out of the total additions in 2019 and 2018, ₱180.4 million and ₱180.4 million remain to be unpaid as of December 31, 2019 and 2018, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of ₱92.6 million and ₱98.3 million are temporarily idle as of December 31, 2019 and 2018, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to ₱10.6 million and ₱11.2 million as of December 31, 2019 and 2018, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2018, 2017 and 2016.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2019				
	Land	**Buildings and Improvements**	**Residential Unit**	**Construction in Progress**	**Total**
Cost					
Balance at beginning of year	**₱22,137,643**	**₱11,397,724**	**₱7,620**	**₱4,179,574**	**₱37,722,561**
Additions	**845,792**	**166,338**	**35,551**	**1,579,446**	**2,627,127**
Disposals/transfers/others	**(833,430)**	**3,266,202**	**(1,075)**	**(3,294,549)**	**(862,852)**
Balance at end of year	**22,150,005**	**14,830,264**	**42,096**	**2,464,471**	**39,486,836**
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	**3,558,186**	**3,837,854**	**7,620**	**–**	**7,403,660**
Depreciation	**–**	**528,023**	**–**	**–**	**528,023**
Provision for impairment losses	**–**	**500,253**	**–**	**–**	**500,253**
Disposals/transfers/others	**(1,056,283)**	**(472,147)**	**(48,111)**	**–**	**(1,576,541)**
Balance at end of year	**2,501,903**	**4,393,983**	**(40,491)**	**–**	**6,855,395**
Net Book Value	**₱19,648,102**	**₱10,436,281**	**₱82,587**	**₱2,464,471**	**₱32,631,441**

	December 31, 2018				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱22,461,823	₱10,667,848	₱7,620	₱2,635,507	₱35,772,798
Additions	1,720,164	351,347	–	2,264,255	4,335,766
Disposals/transfers/others	(2,044,344)	378,529	–	(720,188)	(2,386,003)
Balance at end of year	22,137,643	11,397,724	7,620	4,179,574	37,722,561
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,393,857	3,480,528	7,620	–	6,882,005
Depreciation	–	414,160	–	–	414,160
Provision for impairment losses	–	13,221	–	–	13,221
Disposals/transfers/others	164,329	(70,055)	–	–	94,274
Balance at end of year	3,558,186	3,837,854	7,620	–	7,403,660
Net Book Value	₱18,579,455	₱7,559,870	₱–	₱4,179,574	₱30,318,901

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱455.6 million and ₱307.8 million as of December 31, 2019 and 2018, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of ₱4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2019 and 2018, the Group's "Construction in progress" under the "Investment property" account pertains to the construction of building intended for leasing and which is expected to be completed in 2019.

Fair Values of Investment Properties

Below are the fair values of the investment properties as of December 31, 2019, which were determined by professionally qualified, accredited and independent appraisers based on market values *(in thousands)*:

Land	₱37,007,466
Buildings and improvements	16,935,051
	₱53,942,517

The fair value of investment properties of the Group was determined using acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱1,707.8 million and ₱446.9 million in 2019, ₱1,494.7 million and ₱373.6 million in 2018 and ₱1,388.0 million and ₱308.4 million in 2017, respectively (see Note 24). Rental income of the banking segment on its investment properties is presented under “Other income (charges)” (see Note 28).

Depreciation of investment properties charged to operations follows:

	2019	2018	2017
		(In Thousands)	
Cost of rental income (Note 24)	**₱400,369**	₱336,779	₱184,504
General and administrative expenses (Note 26)	**127,654**	77,381	160,495
	₱528,023	₱414,160	₱344,999

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2019	2018
	(In Thousands)	
Software costs	**₱2,326,055**	₱2,314,770
Advances to suppliers	**1,324,642**	1,838,352
Prepaid excise taxes (Note 38)	**797,388**	797,388
Deferred charges	**743,727**	622,035
Miscellaneous assets	**843,967**	–
Deferred input VAT	**398,812**	347,974
Creditable withholding taxes	**380,442**	–
Distribution network access	**272,414**	294,994
Net retirement plan assets (Note 23)	**259,959**	280,464
Refundable and security deposits	**222,020**	308,237
Chattel properties - net	**168,661**	109,265
Goodwill	**163,735**	163,735
Checks for clearing	**7,079**	499,792
Others - net	**657,448**	36,188
	8,566,349	7,613,194
Allowance for probable losses	**(1,058,123)**	(1,178,970)
	₱7,508,226	₱6,434,224

a. Movements in software costs are as follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	**₱2,314,770**	₱2,297,129
Additions	**384,800**	719,376
Amortization (Note 26)	**(376,120)**	(375,042)
Other adjustments	**2,605**	(326,693)
Balance at end of year	**₱2,326,055**	₱2,314,770

Additions to software costs pertain primarily to the upgrade of the core banking system of the banking segment.

b. In 2018, the Group reclassified the prepaid excise taxes of TDI from "Other current assets" to "Other noncurrent assets" in light of the Court of Tax Appeals decision dated February 7, 2019.

c. Miscellaneous assets mainly pertain to interoffice floats. Tthe bank provided allowance for probable losses on floats which are long outstanding.

d. The distribution network access, which was acquired on March 31, 2017, covers APB Myanmar's relations with Myanmar Distribution Group, its exclusive distributor.

e. Deferred input VAT arises mainly from the acquisition of capital goods.

f. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group's projects. These refundable deposits amounting to ₱222.0 million and ₱308.2 million as of December 31, 2019 and 2018, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

g. As of December 31, 2019 and 2018, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱94.5 million and ₱105.9 million, respectively.

h. The Group recognized goodwill which pertains mainly to ADI amounting to ₱144.7 million, respectively. As of December 31, 2019 and 2018, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI.

The recoverable amount of ADI is determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 7.0% and 9.7% in 2019 and 2018, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.2% as of December 31, 2019 and 6.7% as of December 31, 2018. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value-in-use. As of December 31, 2019 and 2018, the recoverable amount of ADI is higher than its carrying value.

i. The Group has receivable from OPII, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2019 and 2018, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. Collections from OPII in 2016 amounting to ₱500.0 million are recorded under "Other income (charges)" (see Note 28).

15. Deposit Liabilities

	2019	2018
	(In Thousands)	
Demand	**₱172,228,956**	₱153,065,163
Savings	**383,963,252**	387,882,302
Time	**262,046,747**	178,613,954
	818,238,955	719,561,419
Presented as noncurrent	**(46,095,883)**	(47,219,123)
	₱772,143,072	₱672,342,296

Of the total deposit liabilities of the Group, ₱37.5 billion and ₱28.6 billion are non-interest bearing as of December 31, 2019 and 2018, respectively. Annual interest rates of the deposit liabilities follow:

	2019	2018
Foreign-currency denominated deposit liabilities	**0.01% to 5.75%**	0.01% to 8.00%
Peso-denominated deposit liabilities	**0.10% to 6.00%**	0.01% to 10.00%

Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 13.84% and 3.89%, respectively. As of December 31, 2019 and 2018, available reserves booked under "Due from BSP" amounted to ₱106.0 billion and ₱102.7 billion, respectively (see Note 5).

Long-term Negotiable Certificates of Time Deposits

Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

					Carrying Value	
Issue Date	**Maturity Date**	**Face Value**	**Coupon Rate**	**Interest Repayment Terms**	**2019**	2018
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	**₱4,563,212**	₱–
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	**8,155,043**	–
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	**6,323,898**	6,316,699
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,751,954**	3,747,669
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,362,599**	5,355,858
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	**6,995,398**	6,985,553
October 21,2013	April 22, 2019	4,000,000	3.25%	Quarterly	**–**	3,998,167
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**–**	4,999,279
		₱44,315,000			**₱35,152,104**	₱31,403,225

Other significant terms and conditions of the above LTNCDs follow:

a. Issue price at 100.00% of the face value of each LTNCD.

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

   Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other

   present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to ₱13.6 billion, ₱7.7 billion and ₱4.8 billion in 2019, 2018 and 2017, respectively (see Note 24).

In 2019, 2018 and 2017, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to ₱40.5 million, ₱39.3 million and ₱32.1 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱162.9 million and ₱91.8 million as of December 31, 2019 and 2018, respectively.

16. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to ₱245.6 million and ₱470.6 million as of December 31, 2019 and 2018, respectively (see Notes 21 and 33).

17. **Bills and Acceptances Payable**

Bills and acceptances payable consist of:

	2019	2018
	(In Thousands)	
Bills payable to:		
BSP and local banks (Note 22)	**₱52,664,371**	₱67,792,569
Foreign banks	**606,585**	521,405
Others	**–**	3,000
	53,270,956	68,316,974
Acceptances outstanding	**2,692,334**	1,765,861
	55,963,290	70,082,835
Presented as noncurrent	**(4,141,689)**	(9,533,590)
	₱51,821,601	₱60,549,245

Annual interest rates are shown below:

	2019	2018	2017
Foreign currency-denominated borrowings	**0.2% to 4.4%**	0.0% to 4.4%	0.1% to 3.6%
Peso-denominated borrowings	**4.0% to 5.4%**	0.6% to 5.4%	0.6%

PNB’s bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (see Note 8).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing, with carrying value of ₱7.4 billion as of December 31, 2016 and was preterminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

- The lenders agree to provide PNB with a term loan facility of up to US$150.00 million (₱7.5 billion). PNB must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.

- The borrowing bears interest at 1.38% over USD LIBOR. PNB may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.

- PNB shall ensure that so long as any amount of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.

- PNB may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of US$1.0 million (₱49.7 million), subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2018, PNB has complied with the above debt covenants.

As of December 31, 2019 and 2018, bills payable with a carrying amount of ₱23.3 billion and ₱48.0 billion are secured by a pledge of financial assets at FVOCI with fair values of ₱8.1 billion and ₱11.3 billion, respectively, and investment securities at amortized cost with carrying values of ₱21.0 billion and ₱36.7 billion, respectively, and fair values of ₱21.6 billion and ₱39.5 billion, respectively (see Note 7).

Following are the significant terms and conditions of the repurchase agreements entered into by PNB:

a. Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
b. The term or life of this borrowing is up to three years;
c. Some borrowings bear a fixed interest rate while others have floating interest rate;
d. PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;
e. Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
f. Certain borrowings are subject to margin call up to US$ 1.4 million; and
g. Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under "Cost of banking services" amounting to ₱2.2 billion in 2019, ₱0.7 billion in 2018 and ₱0.7 billion in 2017 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2019	2018
	(In Thousands)	
Trade payables	**₱13,171,309**	₱11,724,085
Nontrade payables	**1,297,631**	608,134
Accrued expenses:		
Purchase of materials and supplies and others	**2,872,621**	1,617,040
Interest	**1,972,156**	1,529,514
Other benefits - monetary value of leave credits	**1,436,248**	1,671,002
Taxes and licenses	**1,161,301**	994,408
Project development costs	**1,024,700**	1,097,299
PDIC insurance premiums	**843,677**	716,041
Retention payable	**771,080**	924,505
Advertising and promotional expenses	**673,648**	804,651
Rent and utilities payable	**308,953**	367,457
Information technology-related expenses	**182,057**	145,206
Due to government agencies	**134,338**	107,104
Output value added tax	**120,775**	113,898
Other payables	**726,135**	299,493
	₱26,700,462	₱22,719,837

Trade Payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Project Development Costs
Accued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Accrued Expenses
Other accrued expenses consist of accruals for commission, outside services, fuel and oil, and professional fees which are individually not significant as to amounts.

Retention Payable
Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Other Payables
Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. Short-term and Long-term Debts

Short-term Debts
As of December 31, 2019 and 2018, outstanding unsecured short-term debts amounted to ₱5,150.0 million and ₱2,050.0 million, respectively. The loans are subject to annual interest rates ranging from 6.3% to 7.3% in 2019 and 3.3% to 7.0% in 2018, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	2019	2018
	(In Thousands)	
Bonds payable	**₱66,615,078**	₱15,661,372
Lease liabilities (Notes 2 and 38)	**3,247,876**	−
Unsecured term loan	**2,334,259**	2,893,952
Notes payable	**372,243**	90,829
	72,569,456	18,646,153
Current portion	**(1,002,593)**	(90,829)
	₱71,566,863	₱18,555,324

PNB's Bonds Payable
4.25% USD 300 Million Fixed Rate Medium Term Note

On April 26, 2018, the Group issued 4.25% fixed coupon rate (EIR of 4.43%) unsecured medium term note listed on the Singapore Stock Exchange at par value of $300 million in preparation for the higher capital and liquidity requirements required by the Bangko Sentral ng Pilipinas in the succeeding year. The bonds have an issue price of 99.532%, interest payable at semi-annual, tenor of five years and a day, and maturity of April 27, 2023.

As of December 31, 2019 and 2018, the unamortized transaction cost of bonds payable amounted to ₱421.7 million and ₱112.6 million. Amortization of transaction costs amounting to ₱98.5 million and ₱15.9 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income (Note 19).

PNB's Subordinated Debts

5.875% ₱3.5 Billion Subordinated Notes
On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.05%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of PNB to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% ₱6.5 Billion Subordinated Notes
On June 15, 2011, PNB's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

On June 16, 2016, PNB exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

In 2018 and 2017, amortization of transaction costs amounting to nil and ₱2.2 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with BDO amounting to ₱2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to ₱1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

In 2018, Parent Company entered into an unsecured term loan agreement with Bank of the Philippine Islands (BPI) amounting to ₱5.0 billion to finance the construction of the Eton's projects. On July 31, 2018, ₱0.5 billion was initially drawn and an additional ₱1.0 billion on September 26, 2018. The term loan with BPI has a nominal rate of 6.8% and 7.9% for the first and second drawdown, respectively. Principal repayments will commence three years from the date of initial borrowing, while interest payments are due quarterly.

Finance costs

Interest recognized on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

Compliance with debt covenants

As of December 31, 2019 and 2018, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. **Other Liabilities**

	2019	2018
	(In Thousands)	
Insurance contract liabilities	**₱5,745,820**	₱5,420,538
Payable to landowners	**1,828,949**	2,288,980
Interoffice floats	**1,584,289**	632,477
Reserve for unearned premiums	**1,470,274**	1,304,143
Managers' checks and demand drafts outstanding	**1,393,535**	1,545,888
Bills purchased - contra (Note 8)	**1,348,148**	1,396,318
Other deferred revenue (Note 12)	**1,188,312**	1,054,243
Other dormant credits	**1,100,311**	946,354
Customers' deposits	**978,618**	1,115,106
Provisions (Note 38)	**969,106**	969,106
Deposit on lease contracts	**833,853**	823,968
Due to Treasurer of the Philippines	**681,835**	571,235
Tenants' rental deposits	**560,992**	506,007
Due to other banks	**538,612**	919,838
Miscellaneous tax securities	**414,051**	216,165
Withholding taxes payable	**385,294**	518,233
Payment order payable	**333,909**	711,532
Margin deposits and cash letters of credit	**224,873**	44,383
Advance rentals	**65,710**	97,197
Others	**342,995**	426,125
	21,989,486	21,507,836
Presented as noncurrent	**(3,147,053)**	(4,999,297)
	₱18,842,433	₱16,508,539

Payables to Landowners
In various dates in 2014, Eton executed a ₱1,061.2 million promissory note, subject to interest rate of PDSTF 3 years plus 0.50% spread, to various landowners in relation to its purchase of land located in Laguna with total purchase price of ₱1.3 billion. In June 2017, the payment of the various promissory notes were extended for another three years.

Interest expense recognized related to these promissory notes amounted to ₱76.1 million, ₱65.9 million and ₱100.5 million in 2019, 2018 and 2017, respectively, net of capitalized portion amounting to ₱13.5 million in 2019, 2018 and 2017 (see Notes 12, 13 and 27).

Customers' Deposits
Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱978.6 million and ₱1,115.1 million as of December 31, 2019 and 2018, respectively.

Deposits and Other Deferred Credits
Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income (see Note 14).

Banking Segment Liabilities

Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit.

21. Derivative Financial Instruments

The tables in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVTPL") , together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2019 and 2018 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2019				December 31, 2018			
	Assets	**Liabilities**	**Average Forward Rate**	**Notional Amount***	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	**₱23,951**	**₱179,106**	**50.64**	**₱1,042,766**	₱1,710	₱97,106	53.11	₱482,974
JPY	**2**	**–**	**0.01**	**666**	24,985	16	0.01	6,018,002
HKD	**–**	**–**	**–**	**–**	874	36	0.13	219,355
CNY	**39**	**–**	**0.14**	**2,000**	33	–	0.14	1,000
GBP	**278**	**–**	**1.31**	**1,700**	211	–	1.26	1,100
EUR	**39**	**2,114**	**1.11**	**11,173**	60,822	74,001	1.15	385,712
SGD	**3**	**–**	**0.74**	**23,394**	–	–	–	–
SELL:								
USD	**280,652**	**8,432**	**50.64**	**1,677,221**	119,480	2,965	52.98	690,340
CAD	**–**	**809**	**0.77**	**1,500**	1,365	–	0.75	2,005
GBP	**176**	**211**	**1.31**	**5,150**	–	428	1.27	3,700
CHF	**–**	**–**	**–**	**–**	7	–	0.99	200
HKD	**–**	**7,010**	**0.13**	**399,627**	536	51,122	50.13	5,276,171
EUR	**4,613**	**51**	**1.11**	**28,691**	–	432	1.14	3,618
JPY	**2,869**	**66**	**0.01**	**1,152,909**	91	9,469	0.01	1,121,000
SGD	**–**	**–**	**–**	**–**	–	14	0.73	200
AUD	**–**	**27**	**0.70**	**100**	72	–	0.71	500
Interest rate swaps	**60,418**	**47,687**	**–**	**–**	307,089	235,059	–	–
Warrants	**–**	**–**	**–**	**–**	57,353	–	–	–
	₱373,040	**₱245,513**			₱574,628	₱470,648		

** The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.*

a. As of December 31, 2019 and 2018, PNB holds nil shares and 275,075 shares and 275,075 shares of ROP Warrants Series B1 at their fair value of US$1.1 million (₱52.58 million) and US$1.1 million (₱52.58 million), respectively.

b. The table below shows the rollforward analysis of net derivatives assets (liabilities):

	2019	2018
	(In Thousands)	
Balance at beginning of year		
Derivative assets	**₱574,629**	₱562,984
Derivative liabilities	**470,649**	343,522
	103,980	219,462

(Forward)

	2019	2018
	(In Thousands)	
Changes in fair value		
Currency forwards and spots*	**(₱663,118)**	(₱899,453)
Interest rate swaps and warrants**	**(3,733)**	161
	(666,851)	(899,614)
Availments	**690,292**	782,810
Balance at end of year		
Derivative assets	**373,040**	574,628
Derivative liabilities	**245,619**	470,648
	₱127,421	₱103,980

* *Presented as part of "Foreign exchange gains".*
** *Presented as part of "Trading and investment securities gains-net"*

The changes in fair value of the derivatives are included in "Trading and investments securities gains" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associates and Joint Ventures	**Entities Under Common Control**
Parent Company	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
Subsidiaries	Grand Cargo and Warehousing Services., Inc.
TDI and Subsidiaries	Basic Holdings Corporation
ADI	Foremost Farms Inc.
AAC	Grandspan Development Corp.
TBI	Himmel Industries Inc.
ABI and Subsidiaries	Lapu Lapu Packaging
Agua Vida Systems, Inc.	Lucky Travel Corporation
Interbev	Philippine Airlines, Inc.
Waterich	Rapid Movers & Forwarders Co. Inc.
Packageworld	Upright Profits Ltd.
AB Nutribev	Dyzum Distillery Inc.
Asia Pacific Beverage Pte Ltd	Heritage Holdings Corp.
Asia Pacific Beverage Myanmar Pte Ltd	Maxell Holdings, Corp.
FTC	Networks Holdings & Equities, Inc.
Shareholdings	Cube Factor Holdings, Inc.
Saturn	Trustmark Holdings Corporation
Paramount and Subsidiaries	Polima International Limited
Eton	Cosmic Holdings Corp.
BCI	Negros Biochem Corporation
ECI	Grandway Konstruct, Inc.
FHI	Harmonic Holdings Corp.
EPMC	Proton Realty & Development Corporation
Bank Holding Companies:	Billinge Investments Limited
Allmark Holdings Corp.	Step Dragon Co. Limited
Dunmore Development Corp.	High Above Properties Ltd.
Kenrock Holdings Corp.	Penick Group Limited
Leadway Holdings, Inc.	In Shape Group Ltd.
Multiple Star Holdings Corp.	Hibersham Assets Ltd.
Pioneer Holdings & Equities, Inc.	Orient Legend Developments Ltd.
Donfar Management Ltd.	Complete Best Development Ltd.
Fast Return Enterprises Ltd.	Cormack Investments Ltd
Mavelstone International Ltd.	Link Great International Ltd.
Uttermost Success, Ltd.	Bright Able Holdings Ltd.
Ivory Holdings, Inc.	
Merit Holdings & Equities Corp.	

(Forward)

Parent Company, Subsidiaries, Associates and Joint Ventures	Entities Under Common Control
True Success Profits Ltd.	
Key Landmark Investments Ltd.	
Fragile Touch Investments Ltd.	
Caravan Holdings, Corp.	
Solar Holdings Corp.	
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Kentwood Development Corp.	
La Vida Development Corp.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Total Holdings Corp.	
PNB and Subsidiaries	
Mabuhay Global Holding Company Pte. Ltd.	
Mabuhay Digital Philippines, Inc.	
Mabuhay Digital Technologies, Inc.	
Associates	
PMFTC	
VMC	
APLII	
AB HPI	
Joint Ventures	
ABI Pascual Holdings	
ABI Pascual Foods	
AEPDC	

The consolidated statements of income include the following revenue and other income-related (costs and other expenses) account balances arising from transactions with related parties:

	Nature	2019	2018	2017
			(In Thousands)	
Associates	Dividend income	**₱9,778,726**	₱6,461,118	₱4,086,596
	Purchases of inventories	**(547,273)**	(624,145)	(971,081)
	Sales	**516,812**	629,886	1,094,616
	Leases	**35,100**	35,100	35,100
Entities Under Common Control	Banking revenue - interest on loans and receivables	**1,255,819**	810,967	609,817
	Sales of consumer products	**30,656**	25,578	28,865
	Interest income on loans and advances	**23,090**	36,893	18,588
	Rent income	**17,968**	33,857	32,179
	Other income	**73,199**	221,417	124,894
	Freight and handling	**(13,802)**	(12,258)	(6,937)
	Purchases of inventories	**(6,336)**	(3,769)	(9,747)
Entities Under Common Control	Cost of banking services - interest expense on deposit liabilities	**(246,104)**	(189,801)	(75,798)
	Cost of goods sold and services	**(2,035)**	(1,442)	(41,485)
	Management and professional fees	**(581,793)**	(549,058)	(566,937)
	Outside services	**(71,668)**	(71,874)	(52,215)
	Rent expense	**(23,698)**	(23,721)	(53,361)
	Advertising expense	**(130)**	(16,136)	(12,329)
Key Management	Short-term employee benefits	**(572,547)**	(707,500)	(667,920)
	Post-employment benefits	**(77,652)**	(77,652)	(77,651)

The consolidated statements of financial position include the following asset (liability) account balances with related parties:

	Financial Statement Account	Terms and Conditions	Amount/Volume 2019	Amount/Volume 2018	Outstanding Balance 2019	Outstanding Balance 2018
			(In Thousands)			
Parent Company	Due to related parties	On demand; non-interest bearing	**₱–**	₱–	**(₱15,325)**	(₱15,325)
	Due from related parties	On demand; non-interest bearing	**–**	–	**509,000**	509,000
Associates	Other receivables - dividends	Payable monthly	**9,778,726**	6,461,118	**–**	513,610
	Trade receivables	- do -	**516,812**	629,886	**1,197,250**	800,524
	Nontrade receivables	- do -	**129,980**	4,314	**266,985**	137,005
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	**(547,273)**	(624,145)	**(490,957)**	(398,177)
Entities Under Common Control	Finance receivables	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments	**1,255,819**	810,967	**39,487,080**	29,960,818
	Trade receivables	- do -	**30,656**	25,578	**14,298**	18,396
	Other receivables	- do -	**73,199**	221,417	**16,590**	16,730
	Due from related parties	On demand; non-interest bearing	**127**	(677)	**778,948**	1,519,632
	Advances to suppliers	- do -	**(2,035)**	(1,442)	**3,026**	4,110
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	**(916,094)**	(29,550,765)	**15,138,059**	16,054,153
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**(80,744)**	(7,816)	**(376,414)**	(295,670)
	Due to related parties	On demand; non-interest bearing	**14,874**	(22,301)	**(50,000)**	(64,874)
	Other payables	30 to 90 days terms; non-interest bearing	**–**	–	**–**	–

As of December 31, 2019 and 2018, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- On April 10, 2019 and March 13, 2018, LTG declared cash dividends of ₱0.30 and ₱0.20 per share to all stockholders of record as of April 29, 2019 and March 28, 2018, respectively, of which ₱2.4 billion in 2019 and ₱1.6 billion in 2018 were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to ₱9.8 billion in 2019 and ₱6.5 billion in 2018 (see Note 11).

- The Group purchases raw materials such as raw and refined sugar and molasses from VMC.

- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract. As of December 31, 2019 and 2018, the related rent receivable for the lease of land amounted to ₱101.3 million and ₱74.6 million, respectively.

- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to ₱423.3 million. In 2019 and 2018, ABI rendered services in favor of ABHP related to supplies, both imported and locally-purchased, advertising expense, promotions, professional fees, engineering fee and shared expenses in the plant.

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under “Outside services” in “Cost of goods sold” and “Professional fees” in the “General and administrative expenses”.

- The property development segment purchases parcels of land from other related parties for use in its various projects.

- Several entities under common control maintain peso and foreign currency denominated deposits and short-term and long-term loans with PNB. Interest income and financing charges related to these transactions are reported under “Banking revenue” and “Cost of banking services”, respectively (see Note 24).

23. **Retirement Benefits**

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2019 and 2018, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

Details of the Group's net retirement plan assets and liabilities are as follows:

	2019	2018
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱246,112**	₱250,314
TDI	**2,648**	15,138
AAC	**–**	6,270
TBI	**3,011**	–
LTG	**8,188**	8,742
	₱259,959	₱280,464
Net retirement benefits liabilities:		
PNB and subsidiaries	**₱776,936**	₱1,223,830
ABI and subsidiaries	**749,049**	363,324
ADI	**29,578**	19,230
AAC	**15,452**	–
Eton	**128,728**	31,754
	₱1,699,743	₱1,638,138

The following tables summarize the components of net retirement plan assets and net retirement benefits liability recognized in the consolidated statements of financial position, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2019			2018			2017		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Net Retirement Plan Assets**	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**₱201,030**	**(₱481,494)**	**(₱280,464)**	₱233,740	(₱507,450)	(₱273,710)	₱228,448	(₱505,318)	(₱276,870)
Change in status of retirement plan	**–**	**–**	**–**	–	–	–	–	–	–
Net retirement benefits expense (income) in profit or loss:									
Current service cost	**10,478**	**(1,380)**	**9,098**	18,885	–	18,885	18,376	–	18,376
Net interest cost	**7,389**	**(26,178)**	**(18,789)**	8,549	(23,948)	(15,399)	7,581	(21,823)	(14,242)
	17,867	**(27,558)**	**(9,691)**	27,434	(23,948)	3,486	25,957	(21,823)	4,134
Contributions	**(655)**	**(3,620)**	**(4,275)**	–	(1,733)	(1,733)	–	(1,200)	(1,200)
Benefits paid	**(3,995)**	**3,995**	**–**	(27,160)	27,160	–	(10,487)	10,487	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**32,296**	**–**	**32,296**	(27,330)	–	(27,330)	(8,250)	–	(8,250)
Demographic assumptions	**–**	**(8,841)**	**–**	–	–	–	–	–	–
Experience adjustments	**11,927**	**(911)**	**11,016**	(5,654)	24,477	18,823	(1,928)	10,404	8,476
	44,223	**(9,752)**	**34,471**	(32,984)	24,477	(8,507)	(10,178)	10,404	226
Ending balance	**₱258,470**	**(₱518,429)**	**(₱259,959)**	₱201,030	(₱481,494)	(₱280,464)	₱233,740	(₱507,450)	(₱273,710)

Net retirement benefits liabilities:

	2019			2018 (As restated, Note 37)			2018 (As restated, Note 37)		
	Defined Benefit Obligations	**Fair Value of Plan Assets**	**Accrued Retirement Benefits**	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
					(In Thousands)				
Beginning balance	**₱9,239,745**	**(₱7,601,607)**	**₱1,631,868**	₱9,528,099	(₱7,304,618)	₱2,223,481	₱10,193,817	(₱6,294,475)	₱3,899,342
Change in status of retirement plan	**–**	**–**	**–**	–	–	–	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**625,316**	**–**	**625,316**	669,842	–	669,842	756,172	–	756,172
Net interest cost	**542,042**	**(431,789)**	**110,253**	365,052	(258,042)	107,010	435,361	(234,088)	201,273
Past service cost	**3,774**	**–**	**3,774**	361,144	–	361,144	–	–	–
	1,171,132	**(431,789)**	**739,343**	1,396,038	(258,042)	1,137,996	1,191,533	(234,088)	957,445
Contributions	**(1,000)**	**(1,904,683)**	**(1,905,683)**	–	(759,541)	(759,541)	–	(1,472,899)	(1,472,899)
Benefits paid from plan assets	**(419,579)**	**419,579**	**–**	(620,292)	620,292	–	(584,444)	584,444	–
Benefits paid directly from book reserves	**(20,590)**	**–**	**(20,590)**	(12)	–	(12)	–	–	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**1,322,604**	**–**	**1,322,604**	(1,101,246)	–	(1,101,246)	(330,733)	–	(330,733)
Demographic assumptions	**(26,893)**	**–**	**(26,893)**	(55,844)	–	(55,844)	(682,083)	–	(682,083)
Experience adjustments	**69,174**	**(116,350)**	**(47,176)**	93,002	100,302	193,304	(318,920)	153,077	(165,843)
	1,364,885	**(116,350)**	**1,248,535**	(1,064,088)	100,302	(963,786)	(1,331,736)	153,077	(1,178,659)
Ending balance	**₱11,334,593**	**(₱9,634,850)**	**₱1,699,743**	₱9,239,745	(₱7,601,607)	₱1,638,138	₱9,469,170	(₱7,263,941)	₱2,205,229

The fair value of plan assets as of December 31 is as follows:

	2019	2018
	(In Thousands)	
Cash and cash equivalents	**₱142,365**	₱1,138,054
Receivables	**22,375**	2,266,478
Equity investments:		
Financial institutions	**313,744**	526,927
Other	**−**	332,518
Debt investments:		
Investment in private debt securities	**49,393**	2,380,927
Investments in government securities	**419,520**	1,369,171
Others	**−**	29,090
Fair value of plan assets	**₱947,397**	₱8,043,165

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2019	2018
Cash and cash equivalents	**15%**	14%
Receivables	**2%**	28%
Equity investments	**33%**	11%
Debt investments	**50%**	47%
Fair value of plan assets	**100%**	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2019	2018	2017
Discount rate	**4.7%-5.1%**	7.2%-8.1%	5%-6%
Future salary increases	**4.0%-8.0%**	4.0%-8.0%	5%-10%

As of December 31, 2019, the discount and future salary increase rates are 4.7%-5.1% and 4-8%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations as of the end of the reporting period, assuming all other assumptions were held constant *(in thousands)*:

	2019		2018	
	Change in rate	**Increase (Decrease) in Present Value of Defined Benefit Obligations**	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	**0.50%**	**(₱474,462)**	0.50%	(₱442,591)
	-0.50%	**(315,804)**	-0.50%	493,225
Future salary increases	**1.00%**	**(230,197)**	1.00%	520,535
	-1.00%	**(537,972)**	-1.00%	(473,867)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 0.5% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group *(in thousands)*:

	2019	2018
One year and less	**₱1,348,317**	₱1,104,046
More than one year up to five years	**5,106,816**	4,295,709
More than five years up to 10 years	**4,775,894**	5,092,120
More than 10 years up to 15 years	**3,326,514**	4,077,971
More than 15 years	**50,368,706**	41,143,623

The Group expects to contribute ₱1.1 billion to the defined benefit pension plan in 2020. The average duration of the defined benefit obligations at the end of the reporting period range from 16.0 years as of December 31, 2019 and 16.5 to 27 years as of December 31, 2018.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). The fair value of the plan assets as of December 31, 2019 and 2018 for the Group includes investments in the PNB shares of stock with fair value amounting to ₱305.0 million and ₱321.2 million classified as financial assets at FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2019 and 2018, financial assets at FVTPL and at amortized costs include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts placement with BSP.

The retirement funds of the other companies in the Group are maintained by PNB, as the trustee bank. PNB's retirement funds have no investments in debt or equity securities of the companies in the Group.

24. Revenue and Cost of Goods Sold and Services

Revenue consist of:

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Banking revenue (Note 5)	**₱56,615,631**	₱40,243,028	₱32,124,835
Sale of consumer goods	**34,495,786**	32,188,132	29,653,729
Rental income (Note 13)	**1,707,833**	1,494,724	1,388,010
Real estate sales	**1,424,598**	1,704,011	845,053
	₱94,243,848	₱75,629,895	₱64,011,627

Dissagregated revenue information

Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2019 *(in thousands)*:

	Goods/Services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	Total
Sale of consumer goods	₱34,495,786	₱–	₱–	₱34,495,786
Service fees and commission income	5,176,500	–	–	5,176,500
Real estate sales	–	1,424,598	–	1,424,598
Interest income	–	–	50,364,653	50,364,653
Rental income	–	–	1,707,833	1,707,833
Trading and securities gains - net	–	–	1,074,478	1,074,478
	₱39,672,286	₱1,424,598	₱53,146,964	₱94,243,848

Banking revenue consists of:

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Interest income on:			
Loans and receivables	**₱39,618,639**	₱29,966,403	₱22,401,283
Trading and investment securities (Note 21)	**9,425,264**	4,714,234	3,432,877
Deposits with banks and others	**652,539**	777,813	1,330,145
Interbank loans receivable	**668,211**	379,378	219,366
	50,364,653	35,837,828	27,383,671
Service fees and commission income	**5,176,500**	4,259,284	3,982,496
Trading and securities gains - net	**1,074,478**	145,916	758,668
	₱56,615,631	₱40,243,028	₱32,124,835

Sale of consumer goods consists of:

	2019	2018	2017
		(In Thousands)	
Gross sales	**₱37,323,117**	₱34,671,217	₱31,557,067
Less sales returns, discounts and allowances	**2,827,331**	2,483,085	1,903,338
	₱34,495,786	₱32,188,132	₱29,653,729

Cost of goods sold and services consists of:

	2019	2018	2017
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	**₱14,326,602**	₱17,046,895	₱12,221,165
Depreciation and amortization (Note 12)	**1,578,423**	1,457,186	1,420,401
Fuel and power	**1,192,723**	1,156,867	915,246
Taxes and licenses	**6,141,929**	1,095,280	4,521,002
Personnel costs	**959,764**	952,168	841,325
Communication, light and water	**820,024**	803,313	765,499
Outside services	**501,097**	469,040	458,124
Repairs and maintenance	**512,175**	440,679	412,990
Freight and handling	**435,428**	278,824	228,191
Others	**530,317**	1,097,523	851,317
	26,998,482	24,797,775	22,635,260
Cost of banking services	**18,696,210**	9,584,973	6,302,228
Cost of real estate sales (Note 9)	**663,789**	1,209,101	433,875
Cost of rental income (Note 13)	**444,087**	373,553	308,447
Cost of goods sold and services	**₱46,802,568**	₱35,965,402	₱29,679,810

Other expenses include insurance, utilities and outside services which are individually not significant as to amounts.

Cost of banking services consist of:

	2019	2018	2017
		(In Thousands)	
Interest expense on:			
Deposit liabilities (Note 15)	**₱13,577,503**	₱7,672,146	₱4,767,830
Bills payable and other borrowings (Notes 7 and 17)	**2,185,046**	662,340	747,481
Bonds payable	**1,945,497**	477,405	–
Services fees and commission expense	**988,164**	773,082	786,917
	₱18,696,210	₱9,584,973	₱6,302,228

25. Selling Expenses

	2019	2018	2017
		(In Thousands)	
Advertising and promotions	**₱1,458,151**	₱1,222,569	₱1,268,650
Freight and handling	**560,738**	511,970	500,420
Depreciation and amortization (Note 12)	**292,805**	321,754	330,508
Managament, consulting and professional fees	**170,507**	154,138	137,136
Personnel costs	**130,180**	128,334	131,429
Commissions	**101,545**	85,455	35,364
Royalties	**72,239**	63,680	49,663
Fuel and oil	**28,939**	59,270	39,783
Materials and consumables	**37,901**	19,485	12,167
Repairs and maintenance	**32,860**	12,723	40,957
Others	**125,559**	121,009	146,348
	₱3,011,424	₱2,700,387	₱2,692,425

Others include occupancy fees, fuel and oil, insurance, donations, membership and subscription dues, which are individually not significant as to amounts.

26. General and Administrative Expenses

	2019	2018	2017 (As Restated, Note 37)
		(In Thousands)	
Personnel costs	**₱10,399,515**	₱10,275,662	₱9,680,647
Taxes and licenses	**5,113,559**	4,061,968	2,791,913
Depreciation and amortization (Notes 12, 13 and 14)	**3,052,122**	2,152,690	1,780,146
Provision for credit losses (Note 8)	**2,459,444**	1,707,518	1,211,683
Insurance	**1,874,192**	1,623,032	1,457,699
Outside services	**1,860,478**	1,700,161	1,519,014
Marketing and promotional	**1,141,243**	1,178,340	928,613
Occupancy	**1,040,989**	1,773,055	1,584,930
Management, consulting and professional fees	**1,031,532**	949,608	933,482
Policyholder benefits and claim benefits	**909,975**	1,292,949	322,244
Information technology	**818,896**	568,141	446,393
Travel and transportation	**453,325**	402,167	355,668
Litigation	**326,588**	73,787	80,139
Communication, light and water	**314,066**	304,738	255,531
Materials and consumables	**286,716**	313,388	248,210
Repairs and maintenance	**230,192**	249,940	224,062
Freight and handling	**78,884**	69,940	104,490
Fuel and oil	**11,767**	12,001	27,355
Provision for (reversal of) legal cases and other losses - net (Notes 13 and 38)	**–**	(240,110)	(300,730)
Others	**1,317,247**	1,340,869	933,322
	₱32,720,730	₱29,809,844	₱24,584,811

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

27. Finance Costs and Finance Income

Details of finance costs and finance income (other than the banking segment) are as follows:

	2019	2018	2017
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**₱166,018**	₱100,722	₱–
Unsecured term loan and notes payable (Note 20)	**284,823**	44,735	141,937
	₱450,841	₱145,457	₱141,937

(Forward)

	2019	2018	2017
		(In Thousands)	
Finance income			
Cash and other cash items (Note 5)	**₱146,253**	₱172,212	₱119,369
Interest-bearing contracts receivable (Note 8)	**–**	14,324	16,473
FVTPL (Note 6)	**–**	20,105	20,183
AFS investments (Note 7)	**–**	–	1,075
	₱146,253	₱206,641	₱157,100

28. Other Income (Charges)

	2019	2018	2017 (As Restated, Note 37)
		(In Thousands)	
Net insurance premium	**₱1,151,705**	₱1,228,794	₱656,329
Rental income and dues (Note 13)	**892,391**	766,295	597,612
Net gains on sale or exchange of assets	**814,920**	6,086,834	4,163,507
Marketing allowance and income from wire transfers	**344,090**	479,053	355,224
Rooms and other operated departments	**181,862**	93,246	85,112
Dividend income	**145,704**	87,517	62,143
Reversal of provision for expected credit loss	**(142,017)**	–	–
Recoveries from charged off assets	**76,362**	58,584	67,582
Management fees	**24,170**	16,043	15,939
Gain on retirement	**14,838**	6,644	6,869
Mark-to-market gain on financial assets designated at FVTPL (Note 6)	**17,800**	17,234	59,513
Referral, processing and trust fees	**–**	3,011	3,448
Gain on disposal of AFS investments	**–**	–	7,914
Others	**473,477**	223,447	(647,032)
	₱3,995,302	₱9,066,702	₱5,434,160

a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2019, 2018 and 2017 amounting to ₱48.6 million, ₱5,703.5 million and ₱3,755.5 million, respectively.

b. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

29. Income Taxes

Income taxes include the corporate income tax, which is discussed below, and final taxes paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as “Provision for income tax” in the consolidated statements of income.

Under Philippine tax laws, PNB and its certain subsidiaries are subject to percentage and other taxes (presented as "Taxes and Licenses" in the consolidated statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Republic Act No. 9294, an act restoring the tax exemption of OBUs and FCDUs, provides that the income derived by the FCDU from foreign currency transactionswith non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

a. Details of the Group's deferred income tax assets and liabilities as of December 31 follow:

	2019		2018	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
	(In Thousands)			
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	**₱5,764,478**	**₱97,356**	₱7,122,093	₱81,379
Inventories	**1,440**	**1,223**	1,440	1,223
Property, plant and equipment	**–**	**50,202**	–	50,768
Accumulated depreciation on investment properties	**836,233**	**(14,700)**	673,617	–
Unrealized losses on:				
Inventories on hand	**–**	**4,603**		
Sale of property to a subsidiary	**384,523**	**4,529**	384,523	–
Financial assets at FVPL and at FVTOCI	**29,450**	**–**	25,996	–
Deferred rent income	**234,397**	**–**	183,340	–
Net retirement benefits liabilities	**586,029**	**262,478**	398,168	212,288
Reserves and others	**47,379**	**1,872**	84,192	14,711
Deferred rent expense	**–**	**52**	60,835	22
Advance rentals	**5,609**	**32,147**	29,917	–
Accrued expenses	**488,322**	**19,225**	757,918	–
Difference between accounting and tax carrying amount of property, plant and equipment	**–**	**–**	16,059	–
Difference between tax and book basis of accounting for real estate and banking transactions	**–**	**–**	6,724	–
Excess MCIT	**–**	**–**	6,634	–
Unamortized past service cost	**4,474**	**5,703**	505	8,629
Reserve for unearned premiums	**–**	**–**	–	–
NOLCO	**–**	**–**	–	–
Provision for losses	**–**	**–**	–	–
Unrealized forex losses	**104**	**4,811**	–	–
Difference between right-of-use assets and lease liabilities	**1,044**	**74,090**	–	–
	8,383,482	**543,591**	9,751,961	369,020

(Forward)

	2019		2018	
	Net Deferred Income Tax Assets[(1)]	**Net Deferred Income Tax Liabilities[(2)]**	Net Deferred Income Tax Assets[(3)]	Net Deferred Income Tax Liabilities[(4)]
	(In Thousands)			
Deferred income tax liabilities on:				
Fair value gain on investment properties	**(₱1,164,193)**	**₱–**	(₱1,248,724)	(₱17,550)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**(405,545)**	**(30,354)**	(620,039)	(30,354)
Gain on re-measurement of a previously held interest	**(164,429)**	**–**	(164,429)	–
Unrealized foreign exchange gains	**(329,047)**	**(11,995)**	(124,753)	(15,951)
Borrowing cost capitalized to property, plant, and equipment	**(3,175)**	**(108,728)**	(61,306)	(9,277)
Deferred rental income	**(2,536)**	**(99,844)**	(40,884)	(22,376)
Difference between tax and book basis of accounting for real estate transactions	**(6,976)**	**(37,189)**	(14,130)	–
Unamortized debt cost	**–**	**(5,600)**	(7,383)	–
Gain on asset share swap	**–**	**(443,110)**	–	(443,110)
Net retirement plan assets	**771**	**(116,939)**	–	(115,032)
Net changes in fair values of FVTPL financial assets	**(78,637)**	**–**	–	(4,940)
Others	**(54,335)**	**(32,415)**	(129,493)	(9,952)
	(2,208,102)	**(886,174)**	(2,411,141)	(668,542)
	6,175,380	**(342,583)**	7,340,820	(299,522)
Recognized directly in equity:				
Deferred income tax assets on:				
Remeasurement losses on retirement benefits	**2,524**	**45,108**	–	31,382
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**(3,777,969)**	**(8,065,255)**	(5,275,474)	(8,135,937)
Remeasurement gains on defined benefit plans	**(13,264)**	**(53,084)**	(140,122)	(133,745)
Unrealized gains on changes in fair value of financial assets at FVTOCI	**–**	**(94,314)**	–	(278,635)
	(3,791,233)	**(8,212,653)**	(5,415,596)	(8,548,317)
	(3,788,709)	**(8,167,545)**	(5,415,596)	(8,516,935)
	₱2,386,671	**(₱8,510,128)**	₱1,925,224	(₱8,816,457)

(1) *Pertain to IPI, ADI, Eton and PNB*
(2) *Pertain to LTG, Saturn, PLI, AAC, TDI, ABI, PWI and FTC*
(3) *Pertain to PWI, IPI, ADI, Eton and PNB*
(4) *Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC*

b. Provision for current income tax consists of:

	2019	2018	2017
		(In Thousands)	
RCIT	**₱2,711,115**	₱3,971,339	₱2,957,961
MCIT	**2,251**	6,750	11,350
Final tax	**1,497,485**	830,958	636,527
Provision for current income tax	**₱4,210,851**	₱4,809,047	₱3,605,838

c. As of December 31, 2019 and 2018, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2019	2018
	(In Thousands)	
Allowance for credit losses	**₱7,512,006**	₱4,757,081
Accrued expenses	**58,711**	2,883,285
Net retirement benefits liability	**819,428**	2,474,408
Unrealized loss on AFS investments	**–**	1,173,243
Derivative liabilities	**180,759**	182,904
Unamortized past service cost	**1,908,144**	1,241,452
Allowance for inventory obsolescence	**9,938**	10,894
NOLCO	**543,149**	326,066
Excess MCIT	**7,314**	21,516
Others	**261,182**	153,134

Details of the Group’s NOLCO follow *(in thousands)*:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	₱103,937	₱–	(₱23,807)	₱80,130	N/A
2016	135,658	(85,228)	(50,430)	–	2019
2017	78,503	–	–	78,503	2020
2018	415,512	(188,934)	–	226,578	2021
2019	157,938	–	–	157,938	2022
	₱891,548	(₱274,162)	(₱74,237)	₱543,149	

Details of the Group’s MCIT follow *(in thousands)*:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2016	₱3,846	₱–	(₱3,846)	₱–	2019
2017	6,225	(3,240)	–	2,985	2020
2018	6,797	(3,393)	–	3,404	2021
2019	925	–	–	925	2022
	₱17,793	(₱6,633)	(₱3,846)	₱7,314	

d. A reconciliation of the Group’s provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2019	2018	2017
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	**₱7,586,748**	₱7,723,393	₱5,423,313
Adjustments resulting from:			
Equity in net earnings of associates	**217,708**	(1,717,520)	(1,188,987)
Income subjected to final tax	**(1,103,293)**	(982,900)	(922,414)
Nontaxable income	**(3,708,409)**	(549,727)	(442,855)
Non-deductible expenses	**1,711,882**	314,284	400,757

(Forward)

	2019	2018	2017
		(In Thousands)	
Non-deductible deficiency taxes	**₱25,904**	₱–	₱–
Effect of availment of ITH	**(51,911)**	–	–
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	**(875,332)**	64,685	306,365
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**(24,949)**	(37,435)	(52,926)
Difference of itemized deduction against 40% of taxable income	**(51,750)**	–	(26,198)
Others	**(29,284)**	(21,619)	–
Provision for income tax	**₱3,697,314**	₱4,793,161	₱3,497,055

30. **Equity**

Capital Stock
Authorized and issued capital stock of the Company are as follows:

Authorized capital stock at ₱1 par value	
At beginning and end of year	25,000,000,000 shares
Issued capital stock at ₱1 par value:	
At beginning and end of year	₱10,821,388,889

a. Capital stock is held by a total of 375 and 370 stockholders as of December 31, 2019 and 2018, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	₱1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
March 1966	6,000,000	1.00
October 1995	247,500,000	1.00
October 2011	398,138,889	4.22
April 2013	1,840,000,000	20.50

In April 2013, LTG issued 1,840.0 million shares for ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to ₱59.0 million were charged directly to “General and administrative expenses”.

Retained Earnings and Dividends

a. On March 13, 2018, LTG’s BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.05 per share or a total of ₱2,164.28 million to all stockholders of record as of March 28, 2018, to be paid not later than April 11, 2018.

b. On April 10, 2019, LTG’s BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.15 per share or a total of ₱3,246.42 million to all stockholders of record as of April 29, 2019, to be paid not later than May 9, 2019.

c. Retained earnings include undistributed earnings amounting to ₱76.4 billion in 2019, ₱76.4 billion in 2018, and ₱65.5 billion in 2017, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates. Retained earnings available for dividend declaration as at December 31, 2019 amounted to ₱14.5 billion.

   Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of stock of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2019 and 2018.

Preferred Shares of Subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD’s and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into invesments in certain Bank Holding Companies (see Note 22). Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under “Preferred shares of subsidiary issued to Parent Company” were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the Philippine SEC are presented under “Deposit for future stock subscription” as of December 31, 2013. Upon approval of the Philippine SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent. As of December 31, 2018 and 2017, preferred shares of the subsidiary issued to the Parent Company amounted to ₱18.1 billion.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves

Other equity reserves as at December 31, 2019 and 2018 consist of *(in thousands)*:

	2019	2018
Equity adjustments arising from business combination under common control (Note 1)	**₱445,113**	₱445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	**413,769**	193,212
Effect of transaction with non-controlling interest	**66,658**	66,658
Effect of sale of a subsidiary to Company	**99,655**	99,655
Effect of sale of direct interest in a subsidiary	**(543)**	(543)
	₱1,024,652	₱804,095

Shares of Stock of the Company Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2019 and 2018 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2019	2018	2017
		(In Thousands)	
Balance as of January 1, as previously reported	**₱58,223,689**	₱47,000,912	₱42,506,591
Effect of adoption of:			
PFRS 9	**–**	(712,042)	–
PFRS 15	**–**	(106)	–
Balance as of January 1, as adjusted	**58,223,689**	46,288,764	42,506,591
Net income attributable to non-controlling interests	**4,448,233**	4,363,483	3,749,883
Share in other comprehensive income, net of deferred income tax effect:			
Revaluation increment on property plant and equipment	**(170,223)**	7,041,741	–
Cumulative translation adjustments	**(456,101)**	282,883	218,809
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**(305,881)**	254,047	416,293
Net changes in AFS investments (Note 7)	**2,805,235**	74,783	134,878
Share in remeasurement gain on defined benefit plans of associates	**–**	–	(25,542)
Reserves of disposal group classified as held for sale	**–**	(62,655)	–
Dividends received	**(3,372)**	(19,357)	–
Acquisition of shares of subsidiaries from the Controlling Shareholders	**2,539,185**	–	–
Other equity reserves	**5,264**		
Balance as of December 31	**₱67,086,029**	₱58,223,689	₱47,000,912

31. Basic/Diluted Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

	2019	2018	2017
	(In Thousands)		
Net income attributable to equity holders of the Company	**₱23,117,524**	₱16,194,778	₱10,830,773
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱2.14**	₱1.50	₱1.00

There are no potential common shares with dilutive effect on the basic earnings per share in 2019, 2018 and 2017.

32. Financial Risk Management Objectives and Policies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BOD of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group.

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

The Group's banking activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's banking segment continuing profitability.

The Group monitors its processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Interest Rate Risk in Banking Book (IRRBB)
- Stratefic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

For the banking segment, credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The banking segment manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Group in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
    a. portfolio growth
    b. movement of loan portfolio
    c. adequacy of loan loss reserves
    d. trend of nonperforming loans (NPLs)

e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by PNB and documentary/commercial LCs which are written undertakings by PNB.

To mitigate this risk PNB requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The banking segment follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The banking segment is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group's banking segment is shown below:

	Consolidated			
	2019			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
		(In Millions)		
Securities held under agreements to resell	**₱2,518**	**₱2,518**	**₱–**	**₱2,518**
Loans and receivables:				
Receivables from customers*:				
Corporates	**540,584**	**287,490**	**378,128**	**162,456**
Local government units (LGU)	**6,729**	**130**	**6,694**	**35**
Credit Cards	**14,264**	**–**	**14,264**	**–**
Retail small and medium enterprises (SME)	**18,943**	**28,248**	**5,494**	**13,449**
Housing Loans	**32,017**	**28,805**	**12,633**	**19,385**
Auto Loans	**12,861**	**13,688**	**9,681**	**3,180**
Others	**10,897**	**18,436**	**2,778**	**8,119**
Other receivables	**20,973**	**5,515**	**18,278**	**2,695**
	₱659,786	**₱384,830**	**₱447,950**	**₱211,837**

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated (As Restated, Note 37)			
	2018			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱20,700	₱19,947	₱753	₱19,947
Loans and receivables:				
Receivables from customers*:				
Corporates	471,255	349,173	413,165	58,090
LGU	6,850	203	6,647	203
Credit Cards	12,336		12,336	
Retail SME	11,079	19,751	5,448	5,631
Housing Loans	32,570	32,011	12,442	20,127
Auto Loans	11,512	10,948	8,410	3,102
Others	16,995	13,689	12,985	4,011
Other receivables	23,420	11,841	12,645	10,774
	₱606,717	₱457,563	₱484,831	₱121,885

**Receivables from customers exclude residual value of the leased asset (Note 10).*

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 38 to the financial statements.

Excessive risk concentration
The banking segment's credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the banking segment constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
The internal limits set by the Parent Company for group exposures are as folows:
CRR 1-12 – up to 95% of the regulatory Single Borrowers Limit (SBL)
CRR 13-18 – up to of the regulatory SBL
CRR 18-26 – up to 50% of the regulatory SBL

For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2019	2018
	(In Millions)	
Philippines	**₱900,502**	₱804,098
Asia (excluding the Philippines)	**95,755**	75,285
USA and Canada	**16,555**	14,328
Oceania	**–**	8,449
Other European Union Countries	**6,521**	1,684
United Kingdom	**23,753**	1,573
Middle East	**2,468**	17
	₱1,045,554	₱905,434

c. Concentration by Industry
The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2019			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*** **	**Total**
		(In Millions)		
Primary target industry:				
Financial intermediaries	**₱106,952**	**₱23,769**	**₱42,590**	**₱173,311**
Wholesale and retail	**88,529**	**–**	**–**	**88,529**
Electricity, gas and water	**72,582**	**4,618**	**–**	**77,200**
Transport, storage and communication	**31,625**	**144**	**–**	**31,769**
Manufacturing	**45,365**	**352**	**–**	**45,717**
Public administration and defense	**15,627**	**–**	**–**	**15,627**
Agriculture, hunting and forestry	**9,716**	**–**	**–**	**9,716**
Secondary target industry:				
Government	**–**	**155,871**	**108,500**	**264,371**
Real estate, renting and business activities	**87,039**	**22,826**	**–**	**109,865**
Construction	**41,520**	**–**	**–**	**41,520**
Others**	**158,313**	**29,494**	**121**	**187,928**
	₱657,268	**₱237,074**	**₱151,211**	**₱1,045,553**

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

	2018			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	₱91,280	₱32,396	₱133,431	₱257,107
Electricity, gas and water	82,870	−	−	82,870
Wholesale and retail	72,395	3,825	−	76,220
Manufacturing	41,994	393	−	42,387
Transport, storage and communication	49,142	446	−	49,588
Public administration and defense	18,008	−	−	18,008
Agriculture, hunting and forestry	7,280	−	−	7,280
Secondary target industry:				
Government	962	102,331	22,149	125,442
Real estate, renting and business activities	83,004	359	−	83,363
Construction	25,852	14,605	−	40,457
Others**	113,231	8,581	900	122,712
	₱586,018	₱162,936	₱156,480	₱905,434

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12% for priority industry, 8% for regular industry, 30% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets

In 2018, the banking segment re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions. Moreover, the banking segment has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the banking segment's exposures can be categorized as either Non-Retail and Retail. Non-Retail segment of the banking segment may be defined as debt obligation of a sovereign, financial intuition, corporation, partnership, or proprietorship. In particular, the banking segment's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, GOCCs, LGUs. Retail exposures are exposures to individual person or persons or to a small business and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

<u>Loans and Receivables</u>
The credit quality of Non-Retail segment is evaluated and monitored using external ratings and internal credit risk rating system. In 2018, the banking segment transitioned to a new internal credit risk rating system but maintained the 2-dimensional structure; that is, there is still a borrower risk rating (BRR) and the facility risk rating (FRR).

Specific borrower rating models were developed by the banking segment to capture specific and unique risk characteristics of each of the Non-Retail segment. The borrower risk rating is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well.

The banking segment uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

Facility Risk Rating on the other hand assesses potential loss of the banking segment in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e., FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g., CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the banking segment in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the banking segment's receivables from customers are defined below:

Credit quality	**26-grade CRR system** **Used beginning January 1, 2018**
High S&P Equivalent Global Rating: AAA to BBB-	*BRR 1 Excellent* Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. *BRR 2 Very Strong* Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. *BRR 3 Strong* Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. *BRR 4-6 Good* Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. *BRR 7-9 Satisfactory* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility BRR 8 is minimal/low. *BRR 10-12 Adequate* Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.
Standard S&P Equivalent Global Rating: BB+ to BB-	*BRR 13-15 Average* Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility.

Credit quality	26-grade CRR system Used beginning January 1, 2018
	BRR 16-18 Acceptable Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. *BRR 19-20 Vulnerable* Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility
Substandard S&P Equivalent Global Rating: B+ to CCC-	*BRR 21-22 Weak* Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments. Default is more than a possibility. *BRR 23-25 Watchlist* Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	*BRR 26 Default* Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the banking segment's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	**₱1,568**	**₱–**	**₱–**	**₱1,568**
Standard	**450,194**	**2,477**	**19**	**452,690**
Substandard	**65,136**	**13,318**	**311**	**78,765**
Impaired	**–**	**–**	**10,655**	**10,655**
	516,898	**15,795**	**10,985**	**543,678**
Subject to Scoring & Unrated				
Non-Retail	**11,194**	**358**	**450**	**12,002**
Corporate	**4,490**	**289**	**423**	**5,202**
LGU	**6,704**	**69**	**27**	**6,800**
Retail	**69,064**	**2,795**	**11,261**	**83,120**
Auto Loans	**11,443**	**459**	**1,067**	**12,969**
Housing Loans	**26,601**	**1,571**	**5,396**	**33,568**
Retail SME	**17,437**	**345**	**2,931**	**20,713**
Credit Card	**13,583**	**420**	**1,867**	**15,870**
Others	**10,699**	**737**	**579**	**12,015**
	90,957	**3,890**	**12,290**	**107,137**
	₱607,855	**₱19,685**	**₱23,275**	**₱650,815**

	2018			
	Stage 1	Stage 2	Stage 3	Total
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	₱246,665	₱1,158	₱–	₱247,823
Standard	160,963	3,171	–	164,134
Substandard	39,019	845	–	39,864
Impaired	–	–	4,725	4,725
	446,647	5,174	4,725	456,546
Subject to Scoring & Unrated				
Non-Retail	22,672	4,809	65	27,546
Corporate	15,795	4,791	40	20,626
LGU	6,877	18	25	6,920
Retail	67,148	589	2,660	70,397
Auto Loans	11,682	21	40	11,743
Housing Loans	33,650	36	157	33,843
Retail SME	10,068	139	1,192	11,399
Credit Card	11,748	393	1,271	13,412
Others	13,797	585	4,964	19,346
	103,617	5,983	7,689	117,289
	₱550,264	₱11,157	₱12,414	₱573,835

The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	Consolidated				
	2019				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
			(In Millions)		
LGU	**₱–**	**₱69**	**₱–**	**₱27**	**₱96**
Credit Card	**–**	**420**	**–**	**1,867**	**2,287**
Retail SME	**366**	**345**	**903**	**2,028**	**3,642**
Housing Loans	**422**	**1,571**	**1,340**	**4,057**	**7,390**
Auto Loans	**157**	**460**	**273**	**793**	**1,683**
Others	**66**	**737**	**184**	**395**	**1,382**
Total	**₱1,011**	**₱3,602**	**₱2,700**	**₱9,167**	**₱16,480**

	Consolidated				
	2018				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
			(In Millions)		
LGU	₱2,601	₱18	₱25	₱–	₱2,644
Credit Card	1	393	1,231	40	1,665
Retail SME	449	139	305	887	1,780
Housing Loans	–	16	152	5	173
Auto Loans	1	22	3	36	62
Others	101	585	1,385	3,579	5,650
Total	₱3,153	₱1,173	₱3,101	₱4,547	₱11,974

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2019					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
			(In Millions)			
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱105,982**	**₱105,982**
Due from other banks	**5,038**	**3,090**	**7,990**	**16,118**	**1,643**	**17,761**
Interbank loans receivables	**9,595**	**13,182**	**435**	**23,212**	**1,627**	**24,839**
Securities held under agreements to resell	–	–	–	–	**2,520**	**2,520**
Financial assets at FVTOCI						
Government securities	**460**	**2,125**	**88,335**	**90,920**	**129**	**91,049**
Private debt securities	**3,443**	**3,330**	**6,367**	**13,140**	**17,250**	**30,390**
Quoted equity securities	–	–	**160**	**160**	**912**	**1,072**
Unquoted equity securities	–	–	–	–	**630**	**630**
Investment securities at amortized cost:						
Government securities	–	–	**55,305**	**55,305**	**290**	**55,595**
Private debt securities	**1,408**	**22,281**	**9,288**	**32,977**	**15,678**	**48,655**
Financial asset at amortized cost:						
Others[4/]	–	–	**5,965**	**5,965**	**19,353**	**25,318**

	December 31, 2018					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
			(In Millions)			
Due from BSP[1/]	₱–	₱–	₱4,058	₱4,058	₱98,665	₱102,723
Due from other banks	8,757	5,845	2,843	17,445	3,558	21,003
Interbank loans receivables	3,260	7,386	453	11,099	149	11,248
Securities held under agreements to resell	–	–	–	–	20,700	20,700
Financial assets at FVTOCI						
Government securities	1,078	–	32,447	33,525	–	33,525
Private debt securities	404	4,794	4,447	9,645	8,074	17,719
Quoted equity securities	–	–	183	183	617	800
Unquoted equity securities	–	–	–	–	86	86
Investment securities at amortized cost:						
Government securities	2,251	1,261	50,793	54,485	5,793	60,278
Private debt securities	152	–	2,737	2,889	41,408	44,297
Financial asset at amortized cost:						
Others[4/]	–	–	–	–	28,430	28,430

[1/] *'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.*

[2/] *Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)*

Liquidity Risk and Funding Management

The banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

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

	December 31, 2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	**₱30,501**	**₱–**	**₱–**	**₱–**	**₱–**	**₱30,501**
Due from BSP and other banks	**123,755**	**–**	**–**	**–**	**–**	**123,755**
Interbank loans receivable	**19,539**	**2,295**	**1,517**	**–**	**1,921**	**25,272**
Securities held under agreements to resell	**2,520**	**–**	**–**	**–**	**–**	**2,520**
Financial assets at FVTPL:						
Government securities	**2**	**–**	**965**	**–**	**9,874**	**10,841**
Private debt securities	**–**	**405**	**9**	**–**	**3,605**	**4,019**
Equity securities	**–**	**–**	**–**	**–**	**1,455**	**1,455**
Investment in UITFs	**7**	**–**	**–**	**–**	**–**	**7**
Derivative assets:						
Gross contractual receivable	**50,516**	**15,145**	**1,051**	**1,089**	**266**	**68,067**
Gross contractual payable	**(50,248)**	**(15,049)**	**(1,034)**	**(1,067)**	**(204)**	**(67,602)**
	268	**96**	**17**	**22**	**62**	**465**
Financial Assets at FVTOCI:						
Government securities	**100**	**9,247**	**7,100**	**6,788**	**103,867**	**127,102**
Private debt securities	**289**	**1,255**	**475**	**2,764**	**29,551**	**34,334**
Equity securities	**1,701**	**–**	**–**	**–**	**–**	**1,701**
Investment securities at amortized cost						
Government securities	**759**	**10**	**2,205**	**1,002**	**67,026**	**71,002**
Private debt securities	**11,016**	**11,617**	**1,276**	**1,150**	**28,510**	**53,569**
Financial assets at amortized cost:						
Receivables from customers	**106,847**	**77,393**	**34,688**	**27,025**	**420,935**	**666,888**
Other receivables	**12,718**	**697**	**2,787**	**201**	**10,698**	**27,101**
Other assets	**421**	**–**	**–**	**–**	**55**	**476**
Total financial assets	**₱310,443**	**₱103,015**	**₱51,039**	**₱38,952**	**₱677,559**	**₱1,181,008**

(Forward)

	December 31, 2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱172,229**	**₱–**	**₱–**	**₱–**	**₱–**	**₱172,229**
Savings	**391,770**	**–**	**–**	**–**	**–**	**391,770**
Time and LTNCDs	**154,612**	**48,317**	**17,170**	**9,753**	**49,383**	**279,235**
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	**34,974**	**15,820**	**841**	**1,069**	**216**	**52,920**
Gross contractual receivable	**(35,114)**	**(15,896)**	**(865)**	**(1,089)**	**(210)**	**(53,174)**
	(140)	**(76)**	**(24)**	**(20)**	**6**	**(254)**
Bills and acceptances payable	**18,063**	**17,836**	**3,221**	**33**	**16,858**	**56,011**
Bonds Payable	**–**	**–**	**–**	**–**	**75,601**	**75,601**
Accrued interest payable and accrued other expenses payable	**1,254**	**708**	**473**	**404**	**275**	**3,114**
Other liabilities	**11,914**	**–**	**–**	–	**1,075**	**12,989**
Total financial liabilities	**₱749,702**	**₱66,785**	**₱20,840**	**₱10,170**	**₱143,198**	**₱990,695**

	December 31, 2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱16,825	₱–	₱–	₱–	₱–	₱16,825
Due from BSP and other banks	123,249	–	–	–	–	123,249
Interbank loans receivable	9,054	3,700	4	412	16,187	29,357
Securities held under agreements to resell	20,714	–	–	–	–	20,714
Financial assets at FVTPL:						
Government securities	116	301	135	682	10,120	11,354
Private debt securities	8	–	–	–	537	545
Equity securities	1	4	54	64	415	538
Investment in UITFs	6	–	–	–	1	7
Derivative assets:						
Gross contractual receivable	27,667	10,536	60	112	683	39,058
Gross contractual payable	(27,520)	(10,490)	(43)	(82)	(411)	(38,546)
	147	46	17	30	272	512
Financial Assets at FVTOCI:						
Government securities	316	554	3,726	1,193	28,390	34,179
Private debt securities	319	153	485	2,757	14,375	18,089
Equity securities	–	–	–	–	886	886
Investment securities at amortized cost						
Government securities	685	1,141	1,741	7,563	60,260	71,390
Private debt securities	1,237	12,857	1,430	2,469	31,929	49,922
Financial assets at amortized cost:						
Receivables from customers	91,597	71,843	29,824	15,112	471,459	679,835
Other receivables	3,246	246	89	3,807	19,045	26,433
Other assets	670	–	–	–	135	805
Total financial assets	₱268,190	₱90,845	₱37,505	₱34,089	₱654,011	₱1,084,640
Financial Liabilities						
Deposit liabilities:						
Demand	₱153,065	₱–	₱–	₱–	₱–	₱153,065
Savings	401,622	–	–	–	–	401,622
Time and LTNCDs	60,076	48,436	19,756	12,648	46,732	187,648

(Forward)

	December 31, 2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	₱21,313	₱4,168	₱59	₱112	₱626	₱26,278
Gross contractual receivable	(21,151)	(4,104)	(44)	(85)	(431)	(25,815)
	162	64	15	27	195	463
Bills and acceptances payable	21,220	31,471	7,651	1,731	9,251	71,324
Bonds Payable	–	–	335	335	18,045	18,715
Accrued interest payable and accrued other expenses payable	530	546	319	478	719	2,592
Other liabilities	9,375	80	11	4,958	1,484	15,908
Total financial liabilities	₱646,050	₱80,597	₱28,087	₱20,177	₱76,426	₱851,337

Market Risks

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets.

The succeeding sections provide discussion on the impact of market risk on the banking segment's trading and structural portfolios.

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

a. Objectives and limitations of the VaR methodology
   The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

b. VaR assumptions/parameters
VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

b. Backtesting
The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

c. Stress Testing
To complement the VaR approximations, the banking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

e. VaR Limits
Since VaR is an integral part of the banking segment's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the banking segment. VaR is computed on an undiversified basis; hence, the banking segment does not consider the correlation effects of the three trading portfolios.

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
		(In Millions)		
December 29, 2019	**₱13.13**	**₱278.29**	**₱26.39**	**₱317.81**
Average Daily	**8.98**	**472.54**	**17.44**	**498.96**
Highest	**27.50**	**1160.34**	**34.89**	**1,222.73**
Lowest	**0.54**	**89.02**	**2.32**	**91.88**
December 29, 2018	5.27	523.30	4.59	533.16
Average Daily	3.49	292.78	2.98	299.25
Highest	14.85	574.50	5.04	594.39
Lowest	0.45	93.54	0.48	94.47

** FX VaR is the bankwide foreign exchange risk*
*** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Structural Market Risk of the Banking Segment

Non-trading Market Risk

Interest rate risk

The banking segment seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the banking segment to interest rate risk. PNB measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The following table sets forth the repricing gap position of the banking segment:

			2019			
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	**₱27,273**	**₱1,575**	**₱564**	**₱128**	**₱94,140**	**₱123,680**
Interbank loans receivable and securities held under agreements to resell	**22,442**	**3,469**	**1,279**	**–**	**159**	**27,349**
Receivables from customers and other receivables - gross**	**148,095**	**58,598**	**26,796**	**8,019**	**98,959**	**340,467**
Total financial assets	**₱197,810**	**₱63,642**	**₱28,639**	**₱8,147**	**₱193,258**	**₱491,496**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱107,429**	**₱38,894**	**₱20,766**	**₱13,055**	**₱211,626**	**₱391,770**
Time***	**149,496**	**34,112**	**9,859**	**9,964**	**26,464**	**229,895**
Bonds payable	**–**	**–**	**–**	**–**	**66,615**	**66,615**
Bills and acceptances payable	**33,718**	**17,038**	**1,838**	**732**	**2,637**	**55,963**
Total financial liabilities	**₱290,643**	**₱90,044**	**₱32,463**	**₱23,751**	**₱307,342**	**₱744,243**
Repricing gap	**(₱92,833)**	**(₱26,402)**	**(₱3,824)**	**(₱15,604)**	**(₱114,084)**	**(₱252,747)**
Cumulative gap	**(92,833)**	**(119,235)**	**(123,059)**	**(138,663)**	**(252,747)**	**–**

**   Financial instruments that are not subject to repricing/rollforward were excluded.*
*** Receivables from customers excludes residual value of leased assets (Note 10).*
****Excludes LTNCD.*

	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱17,189	₱2,227	₱359	₱114	₱103,360	₱123,249
Interbank loans receivable and securities held under agreements to resell	27,252	4,294	–	403	–	31,949
Receivables from customers and other receivables - gross**	133,599	49,477	14,250	10,655	85,552	293,533
Total financial assets	₱178,040	₱55,998	₱14,609	₱11,172	₱188,912	₱448,731
Financial Liabilities*						
Deposit liabilities:						
Savings	₱103,372	₱51,010	₱17,410	₱9,855	₱219,974	₱401,621
Time***	54,243	29,115	12,695	7,291	43,867	147,211
Bonds payable	–	–	–	–	15,662	15,662
Bills and acceptances payable	26,010	29,626	9,334	438	4,675	70,083
Total financial liabilities	₱183,625	₱109,751	₱39,439	₱17,584	₱284,178	₱634,577
Repricing gap	(₱5,585)	(₱53,753)	(₱24,830)	(₱6,412)	(₱95,266)	(₱185,846)
Cumulative gap	(5,585)	(59,338)	(84,168)	(90,580)	(185,846)	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets (Note 10).*
****Excludes LTNCD.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2019		2018	
	Income Before Income Tax	**Equity**	Income Before Income Tax	Equity
		(In Millions)		
+50bps	**₱574**	**₱574**	₱321	₱321
-50bps	**(574)**	**(574)**	(321)	(321)
+100bps	**1,147**	**1,147**	643	643
-100bps	**(1,147)**	**(1,147)**	(643)	(643)

As one of the long-term goals in the risk management process, the banking segment has has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The banking segment takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

The banking segment's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The banking segment believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the banking segment is involved.

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2019			December 31, 2018		
	USD	**Others***	**Total**	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	**₱149**	**₱335**	**₱484**	₱138	₱331	₱469
Due from other banks	**9,638**	**6,084**	**15,722**	8,777	9,814	18,591
Interbank loans and securities held under agreements to resell	**4,880**	**2,095**	**6,975**	2,869	1,950	4,819
Loans and receivables	**22,726**	**11,047**	**33,773**	18,453	11,377	29,830
Financial Assets at FVTPL	**352**	**–**	**352**	447	1	448
AFS investments/Financial Assets at FVTOCI	**1,434**	**503**	**1,937**	4,180	1,326	5,506
Financial assets at amortized cost/HTM investments	**10,061**	**–**	**10,061**	10,207	775	10,982
Other assets	**5,402**	**2,686**	**8,088**	3,539	1,238	4,777
Total assets	**54,642**	**22,750**	**77,392**	48,610	26,812	75,422
Liabilities						
Deposit liabilities	**7,364**	**5,194**	**12,558**	9,288	9,261	18,549
Derivative liabilities	**7**	**7**	**14**	1	2	3
Bills and acceptances payable	**27,942**	**13,298**	**41,240**	8,549	26,778	35,327
Accrued taxes, interest and other expenses	**154**	**32**	**186**	76	107	183
Other liabilities	**1,217**	**945**	**2,162**	1,391	1,136	2,527
Total liabilities	**36,684**	**19,476**	**56,160**	19,305	37,284	56,589
Net Exposure	**₱17,958**	**₱3,274**	**₱21,232**	₱29,305	(₱10,472)	₱18,833

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

Information relating to the banking segment's currency derivatives is contained in Note 21.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies

The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks (consisting of foreign exchange risk, interest rate risk and equity price risk).

Credit Risk
The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group.

In addition, credit risk of property development segment is managed primarily through analysis of receivables on a continuous basis. The credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

Concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. Concentration risk per business segment could arise on the following:

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets
"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

Set out below is the information about the credit risk exposure on the Company's financial assets using provision matrix (in millions):

As of December 31, 2019:

			Trade and other receivables					
				Days past due				
	Cash in banks	**Due from related parties**	**Current**	**< 30 days**	**30-60 days**	**61-90 days**	**> 90 days**	**Total**
Expected credit loss rate	**–%**	**–%**	**0.13% - 82.00%**	**0.13% - 78.9%**	**0.13% - 36.00%**	**0.13% - 93.06%**	**5.00% - 47.00%**	
Estimated total gross carrying amount at default	**₱3,322.7**	**₱2,029.4**	**₱6,934.0**	**₱2,097.7**	**₱2,327.6**	**₱1,274.3**	**₱2,552.3**	**₱15,185.9**
Expected credit loss	**₱–**	**₱–**	**₱1.2**	**₱5.8**	**₱10.1**	**₱14.2**	**₱302.6**	**₱333.9**

As of December 31, 2018:

			Trade and other receivables					
				Days past due				
	Cash in banks	Due from related parties	Current	< 30 days	30-60 days	61-90 days	> 90 days	Total
Expected credit loss rate	–%	–%	0.01% - 8.07%	0.25% - 11.50%	0.40% - 1.57%	0.64% - 2.05%	36.15% - 49.61%	
Estimated total gross carrying amount at default	₱28,863.5	₱2,028.6	₱15,030.3	₱2,228.3	₱1,471.3	₱1,532.7	₱4,330.9	₱24,593.5
Expected credit loss	₱–	₱–	₱1.5	₱1.6	₱1.9	₱3.3	₱456.2	₱464.5

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management *(in millions)*:

	2019			2018		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Cash and other cash items	**₱3,323**	**₱–**	**₱3,323**	₱4,473	₱–	₱4,473
Trade receivables	**14,940**	**–**	**14,940**	14,311	–	14,311
Other receivables	**3,401**	**–**	**3,401**	6,387	–	6,387
Due from related parties	**2,029**	**–**	**2,029**	2,028	–	2,028
Refundable deposits	**178**	**–**	**178**	179	–	179
Financial assets at FVTPL	**7**	**–**	**7**	784	–	784
	₱23,878	**₱–**	**₱23,878**	₱28,162	₱–	₱28,162

	2019			2018		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Short term debts	**₱3,323**	**₱–**	**₱3,323**	₱2,050	₱–	₱2,050
Accounts payable and other liabilities*	**14,940**	**–**	**14,940**	7,668	–	7,668
Long-term debts	**443**	**3,705**	**4,148**	91	2,803	2,894
Due to related parties	**65**	**–**	**65**	336	–	336
Other liabilities	**2,456**	**1,519**	**3,975**	161	2,239	2,400
	₱21,227	**₱5,224**	**₱26,451**	₱10,306	₱5,042	₱15,348

**Excluding non-financial liabilities amounting to ₱134.3 million and ₱221.0 million as of December 31, 2019 and 2018, respectively.*

Market Risks of the Group other than the Banking Segment

The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2019, 2018 and 2017, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by ₱310.4 million, ₱310.4 million and ₱327.4 million , respectively, if equity prices will increase by 19.4%, 19.4% and 10.3%, respectively. An equal change in the opposite direction would have decrease equity by the same amount.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2019 and 2018, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

Foreign currency risk

The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

33. **Offsetting of Financial Assets and Financial Liabilities**

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2019

Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Fair value of Financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative assets (Notes 6 and 21)	**₱74,965,186**	**(₱74,592,146)**	**₱373,040**	**(₱45,891)**	**₱–**	**₱327,149**
Securities sold under agreements to repurchase (Note 8)	**2,517,764**	**–**	**2,517,764**	**–**	**(2,517,745)**	**19**
	₱77,482,950	**(₱74,592,146)**	**₱2,890,804**	**(₱45,891)**	**(₱2,517,745)**	**₱327,168**

December 31, 2018

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	₱46,075,448	(₱45,569,485)	₱505,963	(₱58,838)	₱–	₱447,125
Securities sold under agreements to repurchase (Note 8)	20,700,000	–	20,700,000	–	(19,947,247)	752,753
	₱66,775,448	(₱45,569,485)	₱21,205,963	(₱58,838)	(₱19,947,247)	₱1,199,878

Financial liabilities

December 31, 2019

Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Fair value of Financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	**₱60,131,350**	**(₱59,885,731)**	**₱245,619**	**(₱155,245)**	**₱–**	**₱90,374**
Securities sold under agreements to repurchase (Note 8)*	**23,268,257**	**–**	**23,268,257**	**–**	**(29,655,404)**	**(6,387,147)**
Total	**₱83,399,607**	**(₱59,885,731)**	**₱23,513,876**	**(₱155,245)**	**(₱29,655,404)**	**₱6,296,773**

** Included in bills and acceptances payable in the consolidated statement of financial position.*

December 31, 2018

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	₱32,870,042	(₱33,325,851)	(₱455,809)	₱92,025	₱–	₱363,784
Securities sold under agreements to repurchase (Note 17)*	48,035,239	–	48,035,239	–	(50,776,539)	–
Total	₱80,905,281	(₱33,325,851)	₱47,579,430	₱92,025	(₱50,776,539)	₱363,784

** Included in bills and acceptances payable in the consolidated statement of financial position.*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated statements of financial position after initial recognition. Recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statements of financial position at the end of each reporting period. These include financial assets and liabilities at FVTPL and AFS investments. Non-recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statement of financial position in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties, land and land improvements, plant buildings and building improvements and machineries and equipment. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents with relevant external sources to determine whether the change is reasonable.

As of December 31, 2019 and 2018, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2019		December, 31, 2018 (As Restated, Note 37)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets:				
Financial assets at amortized cost	**₱100,464,757**	**₱101,580,817**	₱99,772,711	₱96,187,595
Loans and receivables:				
Receivables from customers	**636,950,500**	**695,304,130**	561,351,072	561,366,817
	₱737,415,257	**₱796,884,947**	₱661,123,783	₱657,554,412
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱226,894,643**	**₱226,525,853**	₱147,210,729	₱144,481,264
Bills payables	**53,270,956**	**56,049,095**	68,316,974	68,305,178
Long-term debts:				
Subordinated debt	**3,497,797**	**3,551,484**	3,497,797	3,551,484
Unsecured term loan	**2,334,259**	**2,051,108**	2,893,952	2,631,179
Bonds payable	**66,615,078**	**69,640,930**	15,661,372	16,019,776
LTNCD	**35,152,104**	**35,311,473**	31,403,225	28,517,657
Other liabilities:				
Payable to landowners	**1,828,949**	**1,828,949**	911,826	904,506
Tenants' rental deposits	**560,992**	**560,992**	506,007	491,929
	₱390,154,778	**₱395,519,884**	₱270,401,882	₱264,902,973

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are obtained from independent parties offering pricing services, estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - fair values of quoted equity securities are based on quoted market prices. While fair values of unquoted equity securities are the same as the carrying value since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value.

Liabilities - Except for time deposit liabilities, subordinated debt, bonds payable, unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long term maturity and subordinated debt including designated at FVTPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges, from 0.25% to 3.75% and 3.00% to 4.25% as of December 31, 2019 and 2018, respectively.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following assets and liabilities measured at fair value and at cost but which fair values are disclosed and their corresponding level in fair value hierarchy:

	December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	**₱4,258,245**	**₱4,245,577**	**₱–**	**₱8,503,822**
Derivative assets	**–**	**373,040**	**–**	**373,040**
Private debt securities	**2,246,515**	**883,641**	**–**	**3,130,156**
Equity securities	**1,455,435**	**–**	**–**	**1,455,435**
Designated at FVTPL:				
Investment in UITFs	**1,373**	**5,554**	**–**	**6,927**
	₱7,961,568	**₱5,507,812**	**₱–**	**₱13,469,380**
Financial assets at FVTOCI:				
Government securities	**₱66,204,545**	**₱24,845,170**	**₱–**	**₱91,049,715**
Private debt securities	**9,130,230**	**18,496,386**	**2,763,386**	**30,390,002**
Equity securities**	**428,706**	**790,013**	**482,404**	**1,701,123**
	₱75,763,481	**₱44,131,569**	**₱3,245,790**	**₱123,140,840**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱38,519,042**	**₱38,519,042**
Plant buildings and building improvements	**–**	**–**	**13,951,514**	**13,951,514**
Machineries and equipment	**–**	**–**	**7,341,355**	**7,341,355**
	₱–	**₱–**	**₱59,811,911**	**₱59,811,911**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	**₱–**	**₱245,619**	**₱–**	**₱245,619**
	₱–	**₱245,619**	**₱–**	**₱245,619**
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	**₱30,455,373**	**₱70,924,643**	**₱200,801**	**₱101,580,817**
Loans and receivables:				
Receivables from customers	**–**	**–**	**695,304,130**	**695,304,130**
	₱30,455,373	**₱70,924,643**	**₱695,504,931**	**₱796,884,947**

	December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Non-financial Assets				
Investment properties***				
Land	**₱–**	**₱–**	**₱23,894,410**	**₱23,894,410**
Buildings and improvements	**–**	**–**	**4,844,980**	**4,844,980**
	₱–	**₱–**	**₱28,739,390**	**₱28,739,390**
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	**₱–**	**₱–**	**₱226,525,853**	**₱226,525,853**
Long term debts:				
Bills payable	**–**	**–**	**56,049,095**	**56,049,095**
Unsecured term loan	**–**	**–**	**2,051,108**	**2,051,108**
Bonds payable	**39,517,123**	**30,123,807**	**–**	**69,640,930**
LTNCD	**–**	**35,311,473**	**–**	**35,311,473**
Other liabilities:				
Payable to landowners	**–**	**–**	**1,828,949**	**1,828,949**
Tenants' rental deposits	**–**	**–**	**560,992**	**560,992**
	₱39,517,123	**₱65,435,280**	**₱287,015,997**	**₱391,968,400**

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	December 31, 2018 (As Restated, Note 37)			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	₱7,127,592	₱1,330,121	₱–	₱8,457,713
Derivative assets	545,149	–	–	545,149
Private debt securities	–	516,775	57,854	574,629
Equity securities	–	415,583	–	415,583
Designated at FVTPL:				
Investment in UITFs	–	789,949	–	789,949
	₱7,672,741	₱3,052,428	₱57,854	₱10,783,023
AFS investments:				
Government securities	₱19,824,000	₱13,700,795	₱–	₱33,524,795
Private debt securities	5,628,559	12,090,285	–	17,718,844
Equity securities**	488,548	397,634	–	886,182
	₱25,941,107	₱26,188,714	₱–	₱52,129,821
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱–	₱–	₱38,952,217	₱38,952,217
Plant buildings and building improvements	–	–	14,108,050	14,108,050
Machineries and equipment	–	–	7,257,494	7,257,494
	₱–	₱–	₱60,317,761	₱60,317,761
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	₱–	₱470,648	₱–	₱470,648
	₱–	₱470,648	₱–	₱470,648
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	₱88,039,346	₱8,980,697	₱200,702	₱97,220,745
Loans and receivables:				
Receivables from customers	–	–	563,776,759	563,776,759
	₱88,039,346	₱8,980,697	₱563,977,461	₱660,997,504

	December 31, 2018 (As Restated, Note 37)			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Non-financial Assets				
Investment properties***				
Land	₱–	₱–	₱22,583,028	₱22,583,028
Buildings and improvements	–	–	2,662,848	2,662,848
	₱–	₱–	₱25,245,876	₱25,245,876
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱-	₱144,481,264	₱144,481,264
Long term debts:				
Bills payable	–	–	60,436,716	60,436,716
Unsecured term loan	–	–	2,631,179	2,631,179
Bonds payable	16,019,776	–	–	16,019,776
LTNCD	28,517,657	–	–	28,517,657
Other liabilities:				
Payable to landowners	–	–	905,506	905,506
Tenants' rental deposits	–	–	491,929	491,929
	₱44,537,433	₱-	₱208,946,594	₱253,484,027

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

The unquoted debt securities fair values are estimated based on the market data approach that makes use of market multiples derived from a set of comparable. Multiples were determined that is most relevant to assessing the value of the unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	₱6,000 - ₱6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	₱4,287 - ₱10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱2.8 million - ₱26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱3,200 - ₱8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	₱800 - ₱100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

	Description
Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.

(Forward)

Valuation Techniques	Description
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

a. As of December 31, 2019 and 2018, unpaid additions to property, plant and equipment amounted to ₱4.3 million and ₱180.4 million, respectively, which is included as part of "Accounts payable and accrued expenses".

b. In 2019, 2018 and 2017, the Group reclassified cost of land, which was previously recognized as real estate inventory, amounting to nil, ₱282.9 million and ₱536.7 billion, respectively, to investment property.

c. In 2019 and 2018, the Group reclassified costs of condominium units and furniture and fixtures and equipment amounting to nil and ₱16.4 million to property and equipment, respectively.

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2019 and 2018.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in 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 or issue new shares. No change were made in the objectives, policies or processes in 2019 and 2018.

The Group considers its total equity reflected in the consolidated statements of financial position as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated statements of financial position.

The table below shows the leverage ratios of the Group:

	2019	2018
	(In Thousands, except ratios)	
Total liabilities	**₱1,011,822,982**	₱866,586,420
Total equity	**254,007,571**	231,190,388
Total liabilities and equity	**₱1,265,830,553**	₱1,097,776,808
Debt ratio	**0.80:1**	0.79:1
Debt-to-equity ratio	**3.98:1**	3.75:1

Regulatory Qualifying Capital for the Banking Segment

Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRSs in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, PNB has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run PNB's operations by ensuring that PNB maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, PNB shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. PNB has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. PNB complies with the required annual submission of updated ICAAP.

37. **Restatements of Prior Year Financial Statements**

Exchange of shares of PNB Gen for shares of Allied Bankers Insurance Corp. (ABIC)
On April 26, 2018, the BOD of PNB and PNB Holdings approved the exchange of all their holdings in PNB Gen for shares in ABIC. As a result, PNB reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The business of PNB Gen represented the entirety of the Group's non-life insurance business. PNB Gen was previously presented in the 'Others' section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations.

On September 13, 2019, ABIC submitted a revised offer to purchase all of the shares of PNB Gen owned by the Parent Company and PNB Holdings through cash acquisition instead. The Parent Company and PNB Holdings did not assent to ABIC's revised offer due to certain regulatory requirements for the parties to undergo a price discovery process with other possible acquirers. On October 1, 2019, ABIC acknowledged the joint decision of the Parent Company and PNB Holdings, formally closing the former's negotiations to purchase the shares of PNB Gen. With this, the Group reverted the assets and liabilities of PNB Gen from 'Assets and liabilities of disposal group classified as held for sale' of the Group to their respective accounts in the consolidated statements of financial position. Likewise, the results of its operations in 2018 and 2017 amounting to ₱220.0 million (net loss) and ₱70.4 million (net income), respectively, were also reverted from discontinued operations to continuing operations.

The tables below present the impact of the restatements in each line item in the consolidated statement of financial position as of December 31, 2018 and consolidated statements of income and comprehensive income for the years ended December 31, 2018 and 2017:

	As of December 31, 2018		
Consolidated Statement of Financial Position	**As previously reported**	**Restatements**	**As restated**
Assets			
Due from other banks	₱20,525,318	₱477,761	₱21,003,079
Financial assets at FVTPL	9,999,447	1,329	10,000,776
Financial assets at FVOCI	51,674,167	455,654	52,129,821
Investment securities at amortized cost	99,772,711	1,033,150	100,805,861
Loans and receivables	581,695,477	4,970,998	586,666,475
Property and equipment	19,710,145	14,494	19,724,639
Deferred tax assets	2,086,510	26,179	2,112,689
Intangible assets	3,025,157	8,206	3,033,363
Assets of disposal group classified as held for sale	8,238,623	(8,238,623)	–
Other assets	6,140,262	1,250,852	7,391,114
Liabilities			
Accrued taxes, interest and other expenses	6,167,398	229,726	6,397,124
Liabilities of disposal group classified as held for sale	7,237,811	(7,237,811)	–
Other liabilities	21,266,939	7,008,085	28,275,024
Equity			
Net unrealized loss on financial assets at FVOCI	(3,181,335)	(15,601)	(3,196,936)
Remeasurement losses on retirement plan	(1,520,538)	(6,292)	(1,526,830)
Reserves of a disposal group classified as held for sale	(21,893)	21,893	–
Net impact in the consolidated statement of financial position	₱–	₱–	₱–

Consolidated Statement of Income	2018 As previously reported	2018 Restatements	2018 As restated	2017 As previously reported	2017 Restatements	2017 As restated
Interest income on:						
Loans and receivables	₱30,202,480	₱355	₱30,202,835	₱22,669,107	₱369	₱22,669,476
Investment securities at amortized cost and FVOCI/AFS and HTM investments	4,534,297	60,478	4,594,775	3,053,243	46,668	3,099,911
Deposits with banks and others	775,820	1,993	777,813	1,324,526	5,618	1,330,144
Interest income	36,012,642	62,826	36,075,468	27,565,676	52,684	27,618,360
Net interest income	27,001,724	62,826	27,064,550	22,023,968	52,684	22,076,652
Service fees and commission income	4,251,692	7,592	4,259,284	3,982,496	198,365	4,180,861
Net service fees and commission income	3,478,610	7,592	3,486,202	3,195,579	(102,216)	3,093,363
Net insurance premium	–	1,228,794	1,228,794	–	656,329	656,329
Net insurance benefits and claims	–	1,292,949	1,292,949	–	322,244	322,244
Net insurance premium (benefits and claims)	–	(64,155)	(64,155)	–	334,085	334,085
Other income						
Foreign exchange gains - net	942,372	11,692	954,064	1,676,926	(2,556)	1,674,370
Trading and investments securities gains - net	150,691	52	150,743	559,758	–	559,758
Total operating income	38,903,826	18,007	38,921,833	32,330,099	281,997	32,612,096
Operating expenses						
Compensation and fringe benefits	9,380,199	130,241	9,510,440	8,959,754	149,083	9,108,837
Taxes and licenses	3,729,016	931	3,729,947	2,489,342	3,050	2,492,392
Provision for impairment, credit and other losses	1,740,177	12,635	1,752,812	903,595	(19,462)	884,133
Depreciation and amortization	1,944,808	6,169	1,950,977	1,678,227	6,164	1,684,391
Occupancy and equipment-related costs	1,716,315	18,695	1,735,010	1,577,367	18,699	1,596,066
Miscellaneous	6,953,525	45,947	6,999,472	6,320,707	46,812	6,367,519
Total operating expenses	25,464,040	214,618	25,678,658	21,928,992	204,346	22,133,338
Income before income tax	13,439,786	(196,611)	13,243,175	10,401,107	77,651	10,478,758
Provision for income tax	3,663,744	23,361	3,687,105	2,314,934	7,279	2,322,213
Net income (loss) from discontinued operations, net of tax	(219,972)	219,972	–	70,372	(70,372)	–
Basic/diluted EPS attributable to equity holders of the Parent Company from continuing operations	7.75	(0.17)	7.58	6.48	0.05	6.53
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on debt securities at FVOCI, net of tax	(1,610,066)	(616,079)	(2,226,145)	–	–	–
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gains on retirement plan	199,257	(6,292)	192,965	952,697	–	952,697

38. Leases, Provision and Contingencies and Other Matters

Leases

Tthe Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has tenants' rental deposits and advance rentals which are presented under "Other noncurrent liabilities". Tenants' rental deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Tenants' rental deposits and advance rentals amounted to ₱437.8.0 million and ₱71.0 million as of December 31, 2019 and ₱506.0 million and ₱104.6 million as of December 31, 2018, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2019	2018
	(In Thousands)	
Within one year	**₱1,617,061**	₱1,185,458
After one year but not more than five years	**2,829,157**	1,817,706
More than five years	**548,242**	145,505
	₱4,994,460	₱3,148,669

The Group as lessee

The Group has entered into commercial leases for its branch sites/premises, land where the related investment property or property, plant and equipment is build/constructed, warehouse and warehouse equipment, ATM offsite location and other equipment. These non-canceleable leases have lease terms of 1 to 40 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group ROU asset is composed of the Parent Company's branch sites and its subsidiaries offices under lease arrangements.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in 'Occupancy' in the statements of income) amounted to ₱581.1 million, ₱844.6 million and ₱787.1 million in 2019, 2018 and 2017, respectively, for the Group, of which ₱454.1 million, ₱808.3 million and ₱668.7 million in 2019, 2018, and 2017, respectively, pertain to the Parent Company. Rent expense in 2019 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2019 and 2018, the Group has no contingent rent payable.

As of December 31, 2019, the carrying amounts of 'Lease liabilities' are as follows:

Balance at beginning of year	₱3,336,896
Additions	456,644
Interest expense (Note 19)	229,677
Payments	(775,341)
	₱3,247,876

Future minimum lease receivables under finance leases are as follows:

	2019	2018
	(In Thousands)	
Within one year	**₱1,260,542**	₱1,400,361
Beyond one year but not more than five years	**1,164,893**	1,501,944
More than five years	**−**	26,034
Total	**2,425,435**	2,928,339
Less amounts representing finance charges	**13,770**	13,770
Present value of minimum lease payments	**₱2,914,569**	₱2,914,569

Trust Operations
Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱95.9 billion and ₱87.7 billion as of December 31, 2019 and 2018, respectively. In connection with the trust functions of PNB, government securities amounting to ₱1.0 billion and ₱1.0 billion (included under 'Financial assets at amortized cost') as of December 31, 2019 and 2018, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱21.4 million, ₱23.0 million and ₱23.9 million in 2019, 2018 and 2017, respectively, which correspond to 10% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20% of its regulatory capital.

Provisions and Contingencies
In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Excise Tax Refund Claim
The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under “Other current assets” in 2017). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of ₱45.9 million (included under “Other noncurrent assets” in 2017) in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

On February 8, 2019, TDI received the decision of the Court of Tax Appeals Second Division denying TDI’s claim for refund since TDI failed to prove that there is actual payment of the excise tax being claimed. On February 22, 2019, TDI filed a Motion for Reconsideration. As of December 31, 2018, TDI reclassified the prepaid excise tax amounting to ₱797.4 million from “Other current assets” to “Other noncurrent assets”.

<u>Other Matter</u>

Effluent Supply Agreement

On September 26, 2013, PNB and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein PNB will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies PNB that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties.

On January 15, 2018, Aseagas issued a letter notifying PNB for the termination of the Effluent Supply Agreement effective January 16, 2018.

38. Notes to Statements of Cash Flows

Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2019 and 2018 follow:

	Consolidated			
	2019			
	Beginning balance (As restated – Note 37)	**Net cash flows**	**Others**	**Ending balance**
Bills and acceptances payable	**₱70,082,835**	**(₱11,348,364)**	**(₱2,771,181)**	**₱55,963,290**
Bonds payable	**15,661,372**	**51,899,720**	**(946,014)**	**66,615,078**
Lease liabilities	**1,859,717**	**(641,613)**	**588,305**	**1,806,409**
	₱87,603,924	**₱39,909,743**	**(₱3,128,890)**	**₱124,384,777**

	Consolidated			
	2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱43,916,687	₱24,867,590	₱1,298,558	₱70,082,835
Bonds payable	–	15,398,696	262,676	15,661,372
	₱43,916,687	₱40,266,286	₱1,561,234	₱85,744,207

Others include the effects of foreign exchange revaluations, amortization of transaction costs, and accretion of interest.

Non-cash Transactions

Effective January 1, 2019, the Group adopted PFRS 16, in which the Group recognized right-of-use asset and the corresponding lease liabilities, adjusted for previously recognized prepaid and accrued lease payments. Additions to the right-of-use assets of the Group in 2019 amounted to ₱461.9 million. The Group recognized additional lease liabilities in 2019 amounting to ₱456.6 million.

The Group applied creditable withholding taxes against its income tax payable amounting to ₱1.3 billion, ₱2.6 billion and ₱1.6 billion in 2019, 2018 and 2017, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to ₱1.0 billion, ₱0.8 billion, and ₱0.6 billion in 2019, 2018 and 2017, respectively.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5
Bonifacio Global City, Taguig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. and Subsidiaries as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated March 10, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-4 (Group A),
August 23, 2018, valid until August 22, 2021
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125242, January 7, 2020, Makati City

March 10, 2020

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2019
(in thousands)

(1) Financial Assets at Fair Value through Profit or Loss
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government securities				
Fixed Rate Treasury Notes	-	5,542,424	5,971,556	410,797
Republic of the Philippines (ROP) Bonds	-	382,750	430,626	14,622
Retail Treasury Bonds	-	1,054,400	1,126,271	157,029
Treasury Bills	-	976,290	965,353	-
US Treasury Notes	-	-	-	-
Development Bank Of The Phils.	-	9,621	10,016	374
	-	**7,965,485**	**8,503,822**	**582,822**
Private debt securities				
Ayala Land Inc	-	20,100	20,750	1,093
AC Energy	-	557,542	566,056	2,463
Sm Prime Holdings Inc.	-	950	983	286
San Miguel Global Power Holdings Corp	-	280,950	293,292	17,501
International Container Terminal Services Inc.	-	2,532	2,560	190
Security Bank	-	-	-	112
Phoenix Petroleum Phils.	-	-	-	757
Petron	-	-	-	14,884
SMC Global Power Bond	-	-	-	29,646
VLL Bonds - VLL2FXBD2025	-	2,247,600	2,246,515	4,270
	-	**3,109,674**	**3,130,156**	**71,202**

(1) Financial Assets at Fair Value through Profit or Loss
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity securities				
Ayala Corp	30,000	24,903	46,345	-
Ayala Land Inc	100,000	4,550	24,299	-
Bank of the Philippine Island	3,759	353	4,725	-
DMCI Holdings	1,664,000	-	10,999	-
D & L Industries Inc	2,449,600	-	23,271	-
First Gen	365,000	-	8,815	-
Filinvest Land Inc	7,800,000	-	11,700	-
GT Capital	6,500	824	6,501	-
International Container Terminal Services	168,670	-	21,691	-
Jollibee Food Corp	82,160	-	17,747	-
Metro Pacific Investment Corporation	68,670	-	4,553	-
Mega World Corp	2,080,900	4,078	12,354	-
MERALCO	11,500	-	3,646	-
Petron Preferred Shares	866,370	-	893,227	-
SM Prime Holdings	10,000	-	421	-
Del Monte	34,208,196	-	352,344	-
San Miguel Corp - Pref 2H	26,000	1,937	1,953	-
San Miguel Corp - Pref 2I	25,970	1,909	1,953	-
San Miguel Corp - Pref 2G	19,100	1,431	1,434	-
GTCap Pref Series B	-	-	-	-
ALCO Preferred	7,000	679	709	-
Bank Of Philippine Islands	-	-	-	-
Union Bank Of The Philippines	3,385	216	195	-
Forest Hills Golf And Country Club	1	170	170	-

(1) Financial Assets at Fair Value through Profit or Loss
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Rizal Commercial Banking Corp	3,946	112	94	-
Petro Energy Resources Corp	6,289	-	26	-
Global Ferro	10,375	-	19	-
Philippine Savings Bank	5,497	308	316	-
Philippine Long Distance Telephone Company	6,000	5,994	5,928	-
	50,028,888	**47,464**	**1,455,435**	-
Derivatives				
Asia United Bank	-	50,665	31	-
Atlas Fertilizer Corporation	-	44,545	241	-
Australia And N. Zealand Bk	-	2,829,440	44,319	-
Banco De Oro Universal Bank	-	8,421,950	13,310	-
Bank Sentral ng Pilipinas	-	3,808,193	10,580	-
Bank Of China-Manila	-	38,249	52	-
Bank Of The Philippine Islands	-	3,296,035	3,690	-
Bank of Tokyo-Mitsubishi Manila Br.	-	1,779,040	6,573	-
Bank of Tokyo-Mitsubishi LTD	-	1,265,875	11,859	-
BNP Paribas Paris	-	3,817,551	22,724	-
Central Lumber Corp	-	1,730	9	-
Chase Manhattan Bank Singapore	-	5,168,788	45,270	-
China Banking Corporation	-	1,427,225	1,417	-
ChinaTrust Commercial Bank Manila	-	203,295	758	-
Deutsche Bank Ag Mla Br	-	4,268,160	14,787	-
Deutsche Bank London	-	4,837	4,837	-
Doha Bank LTD	-	10,127	9	-
East West Banking Corp	-	304,955	1,149	-
Ecossential Foods Corp.	-	2,840,421	11,142	-
General Metal Container Corp	-	22,267	102	-

(1) Financial Assets at Fair Value through Profit or Loss
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Hongkong And Shanghai Banking Corp.	-	661,610	2,882	-
Internationale Nederlanden Bk Mla.	-	202,660	123	-
Maybank Phils. Inc.	-	5,338,270	20,778	-
Metropolitan Bank And Trust Company	-	5,453,775	31,814	-
Mizuho Bank Ltd Manila	-	203,695	1,158	-
Nomura International PLC	-	3,881	3,881	-
Pajunaviat	-	-	-	-
Phoenix Petroleum Phils Inc.	-	430,617	2,180	-
PLDT	-	2,405,163	7,165	-
PNB Europe - Victoria Br	-	56,179	139	-
PNB Europe Plc	-	56,179	139	-
PNB Europe Plc in favor of GPL	-	19,753	27	-
Rizal Commercial Banking Corp	-	152,230	327	-
Robinsons Bank Corp	-	101,830	561	-
SCB London	-	4,697,658	48,766	-
Security Bank Corporation	-	1,928,030	3,608	-
Standard Chartered Bank Ldn	-	1,268,547	3,346	-
Standard Chartered Bank Manila Br.	-	2,131,110	4,299	-
Sterling bank of Asia Inc	-	50,880	246	-
Sumitomo Mitsui Banking	-	610,260	2,649	-
UBS AG	-	3,182,531	12,327	-
Union Bank of the Philippines	-	1,884,688	9,247	-
United Coconut Planters Bank	-	1,727,485	5,724	-
Wells Fargo Bank Na	-	2,794,807	18,612	-
Allied Bank Hongkong	-	-	35	-
PNB Hongkong Branch	-	-	148	-
		74,965,186	**373,040**	**-**

(1) Financial Assets at Fair Value through Profit or Loss
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Designated at FVPL				
Prime Peso MMF	4,222,886	5,977	6,927	-
Total Financial Assets at Fair Value through Profit or Loss	**54,251,774**	**86,093,786**	**13,469,380**	**654,024**

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government Securities				
Fixed Rate Treasury Notes	-	34,166,136	36,928,012	10,104
Power Sector Assets and Liabilities Management Corporation	-	-	-	34
Republic of the Philippines (ROP) Bonds	-	12,942,833	15,044,181	669
Retail Treasury Bonds	-	22,131,705	23,481,890	20,213
Republic of Indonesia	-	5,551,004	6,158,155	133
U.S. Treasury	-	293,683	291,551	8,136
Small Business Loan asset backed securities	-	151,652	11,178	649
Treasury Bills - SGD	-	430,219	429,335	7,033
Philippine Sovereign Bonds (USD)	-	75,953	77,416	8
Treasury Notes -SGD	-	-	-	-
PNB Guam	-	-	-	-
Treasury Gilts	-	73,324	73,329	475
Federal Reserve	-	-	-	-
Treasury Bills	-	7,152,480	7,097,235	2,697
Kingdom of Saudi Arabia	-	1,519,050	1,598,620	-

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
United Kingdom	-	85,606	86,261	281
Development Bank Of The Philippines	-	253,175	263,560	6
		84,826,820	**91,540,723**	**50,438**
Private Debt Securities				
Aboitiz Power Corp	-	562,300	562,934	7
AC Energy Finacnce International Limited	-	2,440,607	2,494,832	32
Agricultural Bank Of China Ltd HK	-	-	-	-
Apple Inc	-	-	-	-
AT&T Inc.	-	658,255	682,011	19
Ayala Land Inc	-	833,590	863,604	62
Banco De Oro	-	1,878,812	1,885,995	47
Bank Of China	-	-	-	-
Bank of the Philippine Island	-	408,371	431,216	8
BNPParibas	-	-	-	-
China Construction Bank HK	-	-	-	-
China National Offshore Oil Corp Ltd	-	1,012,700	1,028,042	34
Cyberzone Properties Inc	-	-	-	-
Energy Development Corp	-	224,660	233,608	8
Export-Import Bank Of Korea	-	253,175	254,514	6
Filinvest Development Cayman Islands	-	349,382	350,335	12
Filinvest Land Inc	-	106,200	107,613	9
First Gen Corporation	-	-	-	-
FPC Finance Ltd	-	-	-	-
FPC Treasury Limited (FPC)	-	-	-	-
FPT Finance Limited	-	-	-	-
HSBC Holdings Plc	-	-	-	-
Hutchison Whampoa Limited	-	405,080	422,555	14
Icici Bank Limited	-	101,270	103,841	3
Industrial And Com Bank Of China Asia	-	202,540	221,674	10

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Korea Development Bank	-	172,159	172,868	3
Megaworld Corp	-	860,000	874,732	46
Metropolitan Bank & Trust Co.	-	3,000,000	3,099,376	151
Philippine Savings Bank	-	-	-	3
Phoenix Petroleum	-	2,418,500	2,349,465	30
Rizal Commercial Banking Corp	-	610,911	615,725	17
San Miguel Corp	-	94,900	99,161	6
Security Bank Corp	-	435,562	454,407	10
Sinopec Corp	-	1,879,824	1,879,222	52
SM Investments Corp	-	218,013	229,099	45
SM Prime Holdings	-	53,716	53,662	2
South Luzon Tollway Corp	-	254,340	259,489	5,025
Standard Chartered Bank Ldn	-	-	-	-
State Bank Of India	-	430,398	434,727	13
STI Education	-	50,000	50,783	3
Sumitomo Bank Tky	-	-	-	-
Union Bank Of The Phil.	-	1,463,908	1,494,065	52
Verizon Communication Inc	-	-	-	-
Westpac Bk Sydney	-	151,905	152,686	3
Vista Land	-	2,700,000	2,761,759	114,762
Manila North Tollway Corporation Bonds	-	-	-	-
SM Prime Holdings, Inc.	-	-	-	-
South Luzon Tollway Corporation	-	-	-	-
SMC Global Power Bond	-	-	-	-
Phoenix CP	-	-	-	-
CPI	-	-	-	-
Investment in Management Account (IMA#263929)	-	-	42,689	121
SPURA	-	-	-	-
		29,698,493	**30,390,001**	**120,771**

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity Securities				
Apo Golf & Country Club	2	100	315	-
Aptrudev	1	1,500	1	-
Bacnotan Steel Industries	3,345,000	-	-	-
Baguio City Country Club	1	60	3,535	-
Baguio Gold Mining (Now:Pal Holdings)	8,452,500	99	-	-
Bayantel	8,244	8	-	-
Bayantel 31% Tranche B Conv Eqty 83997Shs Bod Apprvl 112414	83,997	14,851	-	-
Bulawan Mining (Bumico)	-	-	-	-
Buona Sorte Holdings, Inc.	25,000,000	25,000	275,213	-
Camp John Hay	3	650	250	-
Camp John Hay Golf Club	3	160	500	-
Chibakakusai Club	-	-	-	-
Club Filipino	2	12	1,050	-
Cruz Tel Co.	30	3	1	-
Development Academy Of The Philippines	-	1,500	-	-
Eagle Ridge Golf & Country Club	30	3,450	3,000	-
Eastridge Golf Course & Village	2	1,800	340	-
Evercrest Golf	2	500	1,000	-
Fairways &Bluewater Resort	294	359,695	56,550	-
Fastech Synergy	1,337,807	8,519	-	-
Fil-Am Resources	2,500,000	27	-	-
Foremost Farms Inc.	92,990	93	183	-
Grandspan Development Corporation	30,000,000	30,000	58,004	-
Iligan Golf & Country Club	1	1	1	-
Iloilo Golf & Country Club	1	88	-	-
Inco Mining	46,875	2	-	-
Infanta Minerals	1,000,000	10	-	-
Lepanto Consolidated Mining Co."A"	4,973	1	2	-

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Lepanto Consolidated Mining Co."B"	1,776	-	2	-
Lgu Guarantee Corp	100,000	5,000	2	-
Luisita Golf & Country Club	1	840	250	-
Manila Golf Country Club-Corporate	202	11,827	304,000	-
Manila Polo Club	1	2,600	23,000	-
Marikudo Country Club Of Iloilo City	1	18	-	-
Meralco	34,741	89	11,012	-
Meralco	-	-	-	-
Mimosa Golf & Country Club	2	952	401	-
Manila Southwoods Golf & Country Club A	1	850	1,100	-
Manila Southwoods Golf & Country Club B	2	3,500	1,200	-
Mount Malarayat Golf & Country Club	17	35,380	5,100	-
Mount Malarayat I	17	1,512	-	-
Negros Occidental Golf & Country Club	1	100	300	-
Nidc Manila Polo Club	-	-	-	-
Northern Tel Co.	1,800	18	1	-
Orchard Golf & Country Club	2	2,200	1,000	-
PAL Holdings Inc	9,988,772	53,040	78,412	-
Paper Industries Corporation of the Philippines	13,525	19	-	-
PCDI Preferred Shares	3,855	23	22	-
Phil Dealing System-Fixed Income	73,000	7,300	15,695	-
Phil. Central Depository Inc.	24,436	3,669	1	-
Phil. Clearing House	21,000	2,100	54,346	-
Phil. Electric Corp Shares	202,440	95	1	-
Phil. Oil Development Company, Inc.	500,000	13	-	-
Philex Mining	151	-	-	-
Philippine Long Distance Company	3,829	44	-	-
Picop Resources	19,021,252	798	-	-

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Piltel (Phil Tel Corp.)	650	10	-	-
PLDT Comm. And Energy Venture	20	9	1	-
PLDT Preferred Shares	108,375	1,084	1	-
Primo Oleo Chemicals	6,638,151	66,382	-	-
Proton Chemical Industries Comm Shares	44,419	-	-	-
Pt&T	5,000,000	-	-	-
Pueblo De Oro Golf ^ Country Club	2	1,411	1	-
Puerto Azul Sports & Beach Club	2	170	499	-
Quezon City Sports Club	1	32	-	-
Retelco	20	5	1	-
Riviera Golf & Country Club	7	2,727	1,330	-
Rural Bank Of Ibajay	1	11	570	-
Santa Elena Golf & Country Club	4	852	2,832	-
Small Business Guarantee	400,000	40,000	40,000	-
Southern Iloilo Telephone Co.	1	2	1	-
Subic Bay Golf & Country Club	1	950	4,867	-
Subic Bay Yatch Club	58	93,000	20,300	-
Swift - ABC	8	-	-	-
Swift Shareholders - PNB	9	-	-	-
Tagaytay Highlands	268	950	187,600	-
Tagaytay Midlands	1	500	500	-
Tayud Golf & Country Club	1	6	-	-
Universal Rightfield Prop. Inc.	2,883,000	69	-	-
United Doctors Service Corporation	233,166	3,730	11,088	-
University of the East	1,226,531	26,250	19,354	-
Valley Golf & Country Club	5	231	5,200	-
Victorias Golf & Country Club	1	110	3,411	-
Wack Wack Golf & Country Club	14	192,010	469,450	-

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Wack Wack Golf & Country Club	13	130	70,325	-
Western Minolco Corp.	11,382,000	17	-	-
Allied Banker Insu.	200,000	-	694	-
Alphaland Balesin Island Resort Corp.	1	-	2,500	-
Bancnet, Inc.	49,999	-	54,039	-
BAP Credit Guaranty	29,800	-	1,138	-
Capitol Hills Golf Club	10	-	1,100	-
Evercrest Golf Club-A	2	-	-	-
Heavenly Garden	5,000	-	500	-
Himmel Industries	73	7,300	7	-
Makati Sports Club-A	1	-	900	-
Mount Malarayat Golf Club-C	1	-	-	-
Phil Columbian Assoc	2	-	-	-
Phil. Clearing House	-	-	-	-
Phil. Dealing House	97,436	-	7,300	-
Phil. Depository & Trust Corp.-BAP as trustee	31,690	-	2,392	-
Philippine Racing Club	30,331,103	-	368,106	-
Philodril	695,625	-	8	-
Sierra Grande Country	100	-	32	-
Sta Elena Golf Club-A	4	-	22,000	-
Ternate Dev't Corporation	1	-	170	-
Manila Golf & Country Club, Inc. (Corp)	2	13,980	154,000	-
PNB Gen	-	-	-	-
PA Alvarez Perpetual Notes	-	386,250	409,797	-
NRCP Common stock	1,000	1	1	-
PLDT SIP	1,600	16	19	-
PNB Management and Devt Corp (Madecor)	313,879	-	3,336	-
PNB Venture	1	-	5,062	-

(2) Financial Assets at Fair Value through Other Comprehensive Income
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Macroasia	170,950,000	363,202	2,820,675	-
LTG	-	-	-	-
	332,487,641	**1,781,513**	**5,586,897**	**-**
Total Financial Assets at Fair Value Through Other Comprehensive Income	**332,487,641**	**116,306,826**	**127,517,621**	**171,209**

(3) Financial Assets at Amortized Cost
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government Securities				
Republic of the Philippines (ROP) Bonds	-	5,674,749	6,574,369	170,745
Fixed Rate Treasury Notes	-	17,772,999	18,652,019	1,026,646
Bangko Sentral ng Pilipinas	-	202,540	270,366	9,180
Province of Aklan (Caticlan Super Marina)	-	14,444	14,438	2,043
Landbank of the Phils	-	184,778	184,698	12,851
National Food Authority	-	-	-	-
Home Guaranty Corp	-	1,668	3,874	96
Power Sector Assets and Liabilities Management Corporation	-	4,602,570	5,597,742	171,435
Retail Treasury Bonds	-	13,141,195	11,519,511	539,094
Republic of Indonesia	-	9,058,285	9,270,192	253,988
Treasury Bills	-	1,072,072	1,052,744	247,978
United Kingdom	-	-	-	-
Federal National Mortgage Association (FNMA)	-	-	-	-

(3) Financial Assets at Amortized Cost
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
US Treasury Notes	-	126,588	125,776	3,357
Federal Reserve - U102 acct.	-	-	5,426	-
PNB Hongkong	-	-	-	-
Development Bank of the Philippines	-	2,162,317	2,242,157	55,562
		54,014,205	**55,513,312**	**2,492,975**
Private Debt Securities				-
Apple Incorporated	-	506,350	508,630	9,590
AC Energy Finance International Limited	-	627,874	628,925	26,843
Agricultural Bank Of China Limited	-	1,519,050	1,510,519	120,790
Ayala Land Incorporated	-	797,350	797,896	33,508
Alibaba Group Holdings	-	-	-	7,129
Alsons Consolidated	-	-	-	8,297
Alsons Consolidated	-	-	-	6,899
Bank of China	-	7,240,805	7,240,384	115,303
Banco De Oro	-	2,880,119	2,851,089	94,603
Bank of China Limited, Singapore Branch	-	1,519,050	1,515,503	-
China Construction Bank	-	9,114,300	9,090,753	69,508
China National Offshore Oil Corp Limited	-	202,540	197,465	8,078
Cyberzone Properties Incorporated	-	803,680	803,333	40,583
Energy Development Corporation	-	-	-	-
Export-Import Bank of Korea	-	455,715	458,834	11,883
Filinvest Development Cayman Islands	-	1,290,567	1,261,767	48,247
First Gen Corporation	-	-	-	-
FPC Capital Limited	-	2,073,200	2,024,526	118,867
Filinvest Land Incorporated	-	501,590	504,256	25,393
FPC Treasury Limited	-	458,696	445,104	21,367
Global Steel (NSC)	-	3,676,245	-	-
Golden Dragon Star	-	-	-	-

(3) Financial Assets at Amortized Cost
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
US Treasury Notes	-	126,588	125,776	3,357
Federal Reserve - U102 acct.	-	-	5,426	-
PNB Hongkong	-	-	-	-
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FPC Capital Limited	-	2,073,200	2,024,526	118,867
Filinvest Land Incorporated	-	501,590	504,256	25,393
FPC Treasury Limited	-	458,696	445,104	21,367
Global Steel (NSC)	-	3,676,245	-	-
Golden Dragon Star	-	-	-	-

(3) Financial Assets at Amortized Cost
(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Hutchison Whampoa	-	1,045,929	1,065,796	26,798
Industrial And Commercial Bank of China Asia	-	-	-	-
Icici Bank Limited	-	871,428	876,152	26,792
International Container Terminal Services Incorporated	-	150,386	154,211	6,059
Korea Development Bank	-	202,540	210,706	4,889
Pilipinas Hino Incorporated	-	6,988	-	9,769
Phoenix Petroleum Philippines	-	-	-	-
Philippine Savings Bank	-	400,000	399,827	129,587
Rizal Commercial Banking Corporation	-	2,372,614	2,365,758	123,407
Security Bank Corporation	-	149,272	162,656	3,485
Sinopec Corporation	-	1,620,320	1,661,054	52,177
South Luzon Tollway Corporation	-	101,640	102,022	4,374
SM Prime Holdings	-	325,000	324,852	19,432
AT&T Incorporated	-	810,160	813,981	23,059
Union Bank	-	2,029,957	1,967,611	77,936
Vista Land and Lifescapes	-	5,000,000	4,997,842	405,000
Petron Corporation	-	10,000	9,993	400
		48,763,365	**44,951,445**	**1,680,052**
Total Financial Assets at Amortized Cost		**102,777,570**	**100,464,757**	**4,173,027**

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2019
(in thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Related party:							
Tangent Holdings Corporation	509,000	-	-	-	509,000	-	509,000
	509,000	**-**	**-**	**-**	**509,000**	**-**	**509,000**

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2019
(in thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Allmark Holdings Corp.	7,535	-	-	-	7,535	-	7,535
Caravan Holdings Corp.	12,830	-	-	-	12,830	-	12,830
Eton Properties Philippines, Inc.	444,000	-	-	-	444,000	-	444,000
Fil-Care Holdings, Inc.	12,930	-	-	-	12,930	-	12,930
Ivory Holdings, Inc.	8,945	-	-	-	8,945	-	8,945
Kenrock Holdings Corp.	14,110	-	-	-	14,110	-	14,110
Leadway Holdings, Inc.	36,500	-	-	-	36,500	-	36,500
Society Holdings Corp.	9,600	-	-	-	9,600	-	9,600
Solar Holdings Corp.	20,300	-	-	-	20,300	-	20,300
Tanduay Distillers, Inc.	950,049	158	-	-	950,207	-	950,207
	1,516,799	**158**	**-**	**-**	**1,516,957**	**-**	**1,516,957**

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2019
(in thousands)

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Disposals	Other changes, additions (deductions)	Ending Balance
Goodwill	₱163,735	–	–	–	–	₱163,735
Software	2,314,770	384,800	(376,120)	–	2,605	2,326,055

Intangibles are presented in “Other noncurrent assets” in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2019
(in thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Short-term and long-term debt current" in related balance sheet	Amount shown under caption "Long-term debt net of current portion" in related balance sheet
1. Bonds payable		₱–	₱66,615,078
2. Lease liabilities (PFRS 16)		630,350	2,617,526
3. Unsecured term loan		–	2,334,259
4. Note payable		372,243	–

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2019

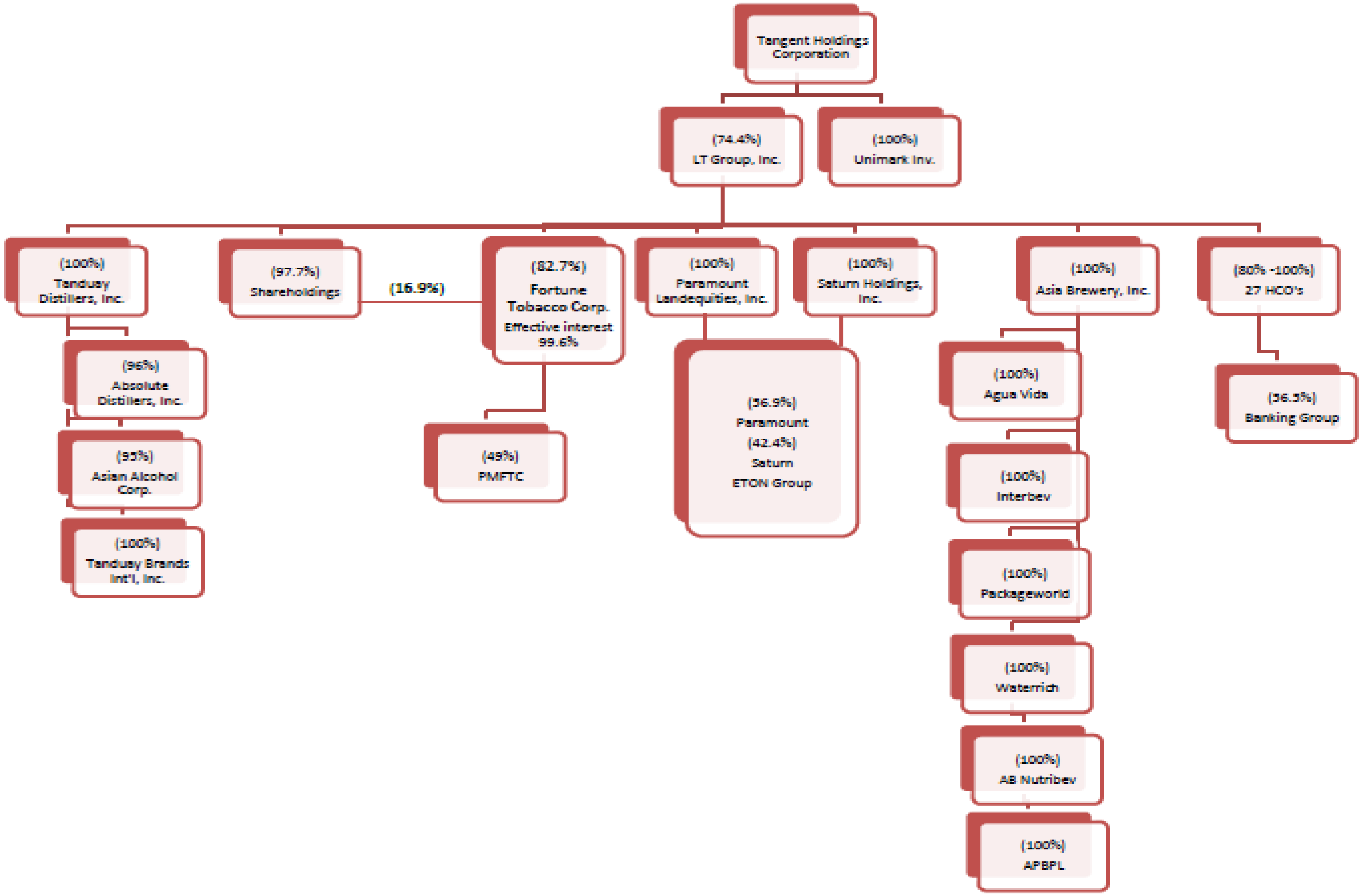
Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	25,000,000,000	10,821,388,889	-	8,046,318,193	163,200	2,774,907,496

LT GROUP, INC.
SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2019

Unappropriated retained earnings as of December 31, 2018, as adjusted to available for dividend declaration		**₱14,465,692,189**
Add: Net income actually earned/realized during the period		
Net income during the period closed to Retained Earnings	₱18,804,393,316	
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	–	
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	–	
Unrealized actuarial gain	–	
Fair value adjustment (M2M gains)	–	
Fair value adjustment of investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP - gain	–	
Movement of deferred income tax assets	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Add: Non-actual losses	–	
Depreciation on revaluation increment (after tax)	–	
Movement of deferred income tax assets	–	
Adjustment due to deviation from PFRS/GAAP - loss	–	
Loss on fair value adjustment of investment property (after tax)	–	
Net income actually earned during the year		**18,804,393,316**
Adjustments:		
Appropriation of retained earnings during the year		**–**
Dividend declarations during the year		**(3,246,416,667)**
Reversal of appropriations during the year		**–**
Effects of prior year adjustments		**–**
Treasury shares		**–**
		(3,246,416,667)
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 2019		**₱15,557,976,649**

Note: In accordance with SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the separate/parent company financial statements of LT Group, Inc.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Relationships between & among the Group and its Parent
DECEMBER 31, 2019



LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE K – Index to Exhibits
SEC FORM 17-A

		Page
(1)	Publication of Notice re: Filing	*
(2)	Underwriting Agreement	*
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession	*
(4)	Articles of Incorporation and By-laws	*
(5)	Instruments Defining The Rights of Security Holders, Including Indentures	*
(6)	Opinion Re: Legality	*
(7)	Opinion Re: Tax Matters	*
(8)	Voting Trust Agreement	*
(9)	Material Contracts	*
(10)	Annual Report to Security Holders, FORM 17-Q or Quarterly Reports To Security Holders	*
(11)	Material Foreign Patents	*
(12)	Letter Re: Unaudited Interim Financial Information	*
(13)	Letter Re: Change in Certifying Accountant	*
(14)	Letter Re: Director Resignation	*
(15)	Letter Re: Change In Accounting Principles	*
(16)	Report Furnished To Security Holders	*
(17)	Other Documents Or Statements To Security Holders	*
(18)	Subsidiaries Of The Registrant	279
(19)	Published Report Regarding Matters Submitted To Vote Of Security Holders	*
(20)	Consents Of Experts and Independent Counsel	*
(21)	Power of Attorney	*
(22)	Statement Of Eligibility Of Trustee	*
(23)	Exhibits to be Filed With Bond Issues	*
(24)	Exhibits to be Filed With Stock Options Issues	*
(25)	Exhibits to be Filed by Investment Companies	*
(26)	Copy of Board of Investment Certificate in the case of Board of Investment Registered Companies	*
(27)	Authorization to Commission to Access Registrant's Bank Accounts	*
(28)	Additional Exhibits	*
(29)	Copy of the Board Resolution approving the securities offering and authorizing the filing of the registration statement	*
(30)	Duly verified resolution of the issuer's Board of Directors	*

These exhibits are either not applicable to the Group or require no answer.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
LT Group, Inc.
11th Floor, Unit 3 Bench Tower
30th St. corner Rizal Drive Crescent Park West 5
Bonifacio Global City, Taguig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 10, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedules on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-4 (Group A),
August 23, 2018, valid until August 22, 2021
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125242, January 7, 2020, Makati City

March 10, 2020

ANNEX 68-E

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

LT GROUP, INC. and SUBSIDIARIES
as of December 31, 2019, and 2018

Ratio	Formula	2019	2018
Current ratio	Current Assets / Current Liabilities	0.60	0.59
Acid test ratio	(Current Assets – Inventories – Prepaid Expenses) / Current Liabilities	0.59	0.57
Solvency ratios	(Net income after tax + Depreciation) / (Short term debt + Long-term Debt)	0.41	0.99
Debt-to-equity ratio	(Short term debt + Long-term Debt) / Equity attributable to equity holders of the Parent Company	0.42	0.12
Asset-to-equity ratio	Total Assets / Total Equity	4.98	4.75
Interest rate coverage ratio	EBITDA / Interest expense	81.96	203.94
Return on equity	Net income attributable to equity holders of the Company / Equity attributable to equity holders of the Parent Company	0.124	0.094
Return on asset	Net income attributable to equity holders of the Parent Company / Total Assets	0.018	0.015
Net profit margin	Net income attributable to equity holders of the Parent Company / Revenues	0.25	0.21

EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2019:

Distilled Spirits	Jurisdiction
1. TDI and subsidiaries	Philippines
a. Absolut Distillers, Inc.	
b. Asian Alcohol Corp	
c. Tanduay Brands Int'l Inc.	

Beverages

ABI and subsidiaries	Philippines
a. Agua Vida Systems, Inc.	
b. Interbev Philippines, Inc.	
c. Waterich Resources Corporation	
d. Packageworld, Inc.	
e. AB Nutribev, Inc.	
f. Asia Pacific Beverage Pte. Ltd.	

Tobacco

Fortune Tobacco Corp.	Philippines

Banking

a. PNB and subsidiaries (see page 7)	Philippines
b. Bank Holding Companies (see page 8)	Philippines

Property Development

a. Saturn	Philippines
b. Paramount	Philippines
1. Eton	Philippines
i. Belton Communities, Inc. (BCI)	
ii. Eton City, Inc. (ECI)	
iii. FirstHomes, Inc. (FHI)	

LT GROUP, INC.

SUSTAINABILITY REPORT 2019

Building a Sustainable Foundation

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Message from the Chairman

Our commitment and dedication to service are just a few things we take to heart as a business and as a member of the global community. We believe that the success of our business is the success of all Filipinos, achieved through our collective strength and solidarity working towards a common goal to elevate the lives of our fellow countrymen who are most in need.

Despite the challenges that the world faced in 2019, the resilience of humanity remains. We continue to move forward by building better and stronger. We hold on to hope and continue to see the good in each other. We remain committed to a brighter tomorrow as we surge forward to a better future.

This is the first sustainability report of LT Group, Inc. You will find in these pages our contribution to a global movement to save the future. Guided by our theme, ‘Building a Sustainable Foundation’, we have stepped up to the challenges of the year that was and continue to look at better ways to operate so we can create sustainable value for all our stakeholders. We look forward to doing more and doing better in the years to come.

As a new decade unfolds, we remain true to our vision of excellence and leadership in business while providing sustainable value for our stakeholders. We believe that although the future might be filled with more challenges, it will be brighter and better.

Dr. Lucio C. Tan
Chairman and Chief Executive Officer

Message from the President

The landscape of business is changing. Success in doing business is no longer solely limited to the health of our balance sheets but our Company's interactions with employees, customers and suppliers, contribution to the communities we operate in and role in environmental preservation. Beyond creating financial value, we look to creating sustainable value for this generation and the generations to come. As effective stewards of today's resources, we are able to help pave the way for a better tomorrow.

At LT Group, Inc. (LTG), we believe that true excellence is achieved by success in financial as well as environmental and social aspects. With this in mind, our commitment to long-term value creation is also a commitment to long-term sustainable development expressed through our alignment to the United Nations' Sustainable Development Goals (SDGs).

LTG's financial success this year was unprecedented. Our total revenues for this reporting period amounted to Php114.25 billion. Of this amount, we spent Php11.49 billion on employee wages and benefits, Php14.95 billion on payments to government, and Php0.09 billion on community investments.

Across the Group, we have robust policies and practices that allow us to remain consistent with our business values, goals and strategy.

We have governance systems in place that help us mitigate risks and ensure compliance. We continue our drive against corrupt practices within the Group with our regular anti-corruption information sessions. Our Whistle-Blower Policy also ensures that any suspected incidents of corruption are reported and resolved without any threat of retaliation to the reporting party. On the other hand, we observe strict compliance with all applicable laws and regulations. Any oversights to compliance are immediately addressed with all necessary requirements. Our compliance teams are working to achieve our target of surpassing standard compliance.

At LTG, we take very seriously our role in helping save the environment and the responsible usage of natural resources. Across the Group, we have placed measures to monitor our water and energy consumptions, and limit our waste production. These are not only beneficial to the environment but also help optimize our operations. We advocate and support efforts on water conservation and the reuse of wastewater, energy efficiency and the use of renewable energy, and proper waste segregation including the transition away from single-use plastics. We also support eco-friendly and sustainable ventures with green financing schemes. By taking care of the environment, we are able to work better while able to help make sure that future generations have clean air to breathe, clean water to drink, and a healthy planet to live in.

The wellness and safety of our people is another one of our top priorities. We regularly conduct trainings on occupational health and safety to inform and update them on the dos and don'ts of a safe working environment. Throughout our operations, we ensure fairness, gender equality, and diversity and inclusion.

Our businesses rely on the continued patronage of our customers and so we work hard to uphold excellence and quality through the products and services we offer. We ensure that our customers are able to make well-informed decisions by ensuring transparency of our products and services through our websites, social media profiles and other platforms. We also make sure that any information that our customers decide to share with us are managed securely in compliance with the Data Privacy Act of 2012 and other related regulations.

As the communities where we operate in are key to our success, we work hard to give back and contribute to their progress and development. Our main corporate social responsibility arm, the Tan Yan Kee Foundation, Inc., takes the lead in conducting projects in the education, health services, social welfare and environmental aspects with projects and activities that continue to touch the lives of our fellow Filipinos in numerous ways.

In the year that passed, we have taken new and bolder steps on our journey to sustainability. These are our ways of showing our deep commitment to becoming more sustainable as a business. In the coming years, we continue to strengthen our efforts in helping build a sustainable future. We look forward to the new decade with renewed hope to surge forward to greater heights.

Michael G. Tan
President and Chief Operating Officer

2019 Highlights

Economics and Governance		
Php114.25 *billion pesos* total revenues	**45% | 55%** *Female* *Male* LTG Board of Directors gender balance	**100%** employees, business partners and governance body members know of our anti-corruption policies
Environment		
0.05 *kilotons* hazardous waste generated and disposed	**5,662.97** *megaliters* total groundwater withdrawal	**161.34** *million gigajoules* direct energy consumption
402.50 *kilotons* non-hazardous waste generated and disposed	**1,149.89** *megaliters* total third-party water withdrawal	**224.82** *million kilowatt hours* electricity consumed
Employees		
12,390 total number of employees	**53% | 47%** *Female* *Male* workforce gender balance	**40%** of all employees covered by Collective Bargaining Agreement[1]
Society		
787 *of 930 ha.* hectares planted and reforested in Barangay R.A. Padilla in Carranglan, Nueva Ecija	**198,040** seedings ready for planting by the LCT Legacy Forest Project	**2000+** number of scholars across all scholarship programs since 1998

[1] The denominator used to calculate this figure is the total number of employees, which includes employees who are eligible and non-eligible by law to form a union.

Our Business Strategy

Our Long-term Strategic Objectives

Vision

To be a world-class conglomerate at the forefront of Philippine economic growth, successfully maintaining a strong presence and dominant position in key Philippine industries while ensuring continuous benefits to its consumers, communities, employees, business partners and shareholders.

Mission

Anchored to its Vision, the LT Group commits:

- To increase stockholder values through long-term growth in its major business groups.
- To continuously improve the value of its products and services and to provide consumers with more and better choices.
- To build the largest, most effective distribution network and widest customer reach in the Philippines.
- To leverage on synergies between its various businesses to continuously improve revenues and cost structure.
- To enhance the welfare of our employees and the communities where we live and work.

The Vision and Mission Statements are reviewed and approved annually by the Board of Directors. The latest reviews were on January 15, 2019 and January 17, 2020.

The LT Group logo

The LT Group Logo is a symbol of strength and solidarity, the essence of our logo. The clean balanced lines and curves are central elements that form a mystical symmetrical tree. Drawn in an Eastern-Oriental style, it gives hint to the company's Chinese heritage.

Tree is life. Life is growth. Like a tree, a company with firm roots, properly nurtured, will continuously grow and give value.

The tree's trunk is upright, and the branches spread out, which is a symbolic consolidation of the subsidiaries and stakeholders within two circles — the inner circle for continuity, the outer circle for solidarity.

Our Organizational Profile

LT Group, Inc.

LT Group, Inc. (LTG or the Company) is a stock corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. On September 22, 1995, the Philippine SEC approved the change in the Company's primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corporation, now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation (Tangent). The share swap resulted in LTG wholly owning TDI and Tangent increasing its ownership in LTG to 97%. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

After a series of restructuring activities in 2012 and 2013, LTG has expanded and diversified its investments to include the beverages, tobacco, property development and banking businesses, all belonging to Dr. Lucio C. Tan and his family and assignees. These business segments that are comprised of the subsidiaries, as well as LTG, are collectively referred to as the "Group" in this report.

As of December 31, 2019, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

The official business address of the head office is 11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5, Bonifacio Global City, Taguig City.

Our Group's diversified portfolio of consumer-focused businesses is well-positioned to benefit from broad-based growth in the Philippine economy. The Group is guided by its over-all aim to be a leading and innovative player in all businesses it is engaged in, continuously improving the value of its products and services. Building its synergistic opportunities between its current businesses, we aim to develop the widest and most effective distribution network in the country.

Our Businesses

Beverages

Asia Brewery, Inc. (ABI) began operating as a beer company in 1982 with the inauguration of its first brewery in Cabuyao, Laguna. It has since diversified to become one of the largest beverage groups in the country offering non-alcoholic and alcoholic beverages. ABI has leading brands in several categories which include Cobra (energy drink), Absolute & Summit (bottled water) and Vitamilk (Soymilk).

In 2012, ABI began the distribution of yogurt products under its partnership with Grupo Leche Pascual (now Calidad Pascual S.A.U.). In 2016, it spun off its beer and Tanduay Ice (alcopop) brands to form a joint venture with Heineken N.V.

Property Development

Eton Properties Philippines, Inc.

Eton Properties Philippines, Inc. (Eton) was established in 2007 as the real estate arm of the Group. Eton carries a diversified portfolio and is involved in both the development and sale of residential subdivisions, high-rise towers and mid-rise buildings as well as in the development and leasing of condominiums, offices, commercial spaces, and serviced apartments.

Tobacco

In 2010, Philip Morris Philippines Manufacturing Inc. (PMPMI) and Fortune Tobacco Corporation (FTC) entered into an agreement to combine their businesses and formed PMFTC Inc. (PMFTC). PMPMI traces its roots from the licensing agreement entered into by Philip Morris International with La Suerte Cigar and Cigarette Factory to manufacture and sell Marlboro in 1955. Meanwhile, FTC was established in 1965 by Dr. Lucio C. Tan to produce cigarettes for the Philippine market. FTC achieved market success early on and was responsible for introducing some of the most successful local cigarette brands in the Philippines, including the Fortune, Champion and Hope menthol brands. Prior to the creation of PMFTC, FTC was the largest domestic tobacco company in the Philippines.

Today PMFTC has a diverse portfolio of international and domestic brands covering all price points in the Philippines. PMFTC manufactures 9 out of the top 15 brands available in the market today.

Banking

Philippine National Bank (PNB) is one of the country's largest private universal banks that provides a full range of banking and other financial services that include corporate banking, consumer banking, investment banking, asset management, insurance services, credit cards, remittances and foreign exchange. PNB was originally established as a government bank in 1916 but has been fully privatized since 2007. In February 2013, Allied Banking Corporation was merged with PNB.

Distilled Spirits

Tanduay Distillers, Inc. (TDI) is a leading distilled spirits producer in the Philippines which started in 1854. TDI produces rum as well as other distilled spirits. The brand and assets of Tanduay Distillery, Inc. were acquired by Dr. Lucio Tan in 1988 from Elizalde & Company, Inc. In 2018 and 2019, Tanduay was named by Drinks International as the World's Number One Rum based on sales volume.

TDI diversified into the production and sale of bioethanol in 2016.

Our Corporate Structure

[1] Owns 50% less 1 share
[2] Voting control at 59.83%
[3] At 30.17% as of end-2016; increase in stake from conversion of convertible notes.

Our Markets and Geographical Reach

As a Group, we are able to reach and serve numerous customers and markets across the Philippines and around the world. The diversity of our products and services, coupled with the excellence that we maintain, ensures the continued patronage of our customers and stakeholders.

LT Group, Inc.

LTG, as the parent/holding company, is domiciled and operates within the Philippines.

Asia Brewery, Inc.

ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. ABI's exclusive distributors have a network of 46 sales offices, 22 warehouses and 35 depots. This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third-party transportation companies, with the costs for the account of such distributors. ABI, through its subsidiary Asia Pacific Beverages Pte Ltd., also has operations in Myanmar.

Eton Properties Philippines Inc.

Eton has a full-range of projects including offices, commercial spaces, a serviced apartment, and residential developments in key cities in Metro Manila, Laguna and Cebu. Eton markets its projects to residential market segments, office locators, and commercial tenants through internal and external sales and marketing channels.

Philippine National Bank

PNB caters to customers in the Philippines and around the world through its head office in Metro Manila, 715 domestic branches and offices across the Philippines, and over 71 overseas branches, desk offices, remittance centers and subsidiaries in 17 locations in the United States (New York, California, Hawaii, Illinois, Nevada, Texas, Washington), Canada (Ontario, British Columbia, Manitoba), Europe (France, Italy, Germany, UK), the Middle East (KSA, UAE, Kuwait, Bahrain, Qatar, Oman), and Asia (Hongkong, Japan, Singapore, Guam, China).

PNB's customers primarily include the corporate, the middle market, retail customers, the National Government (NG), local government units (LGUs), government-owned and controlled corporations (GOCCs) and various government agencies. PNB also has a big customer base from the Overseas Filipino Worker (OFW) segment.

Tanduay Distillers Inc.

TDI serves more than 215,000 points of sale throughout the Philippines through 10 exclusive distributors, who in turn work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. TDI's distributors operate 48 sales offices and 84 warehouses located throughout the Philippines. TDI through Tanduay Brands International, Inc. employs in-house sales staff who provide marketing and general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third-party transportation companies for the account of the distributors.

Governance

Corporate Governance

The Group has four (4) committees which assist the Board in its oversight function over the LTG and its subsidiaries namely, the Audit and Risk Management Committee, the Executive Committee, the Nomination and Compensation Committee, and the Corporate Governance Committee. Each Committee was created for a specific purpose and is tasked to oversee the necessary details in the operations of the Company and its subsidiaries. The Committees help the Company comply with its principles of good governance.

The Company's Audit and Risk Management Committee is composed of five (5) qualified, outstanding and distinguished Directors, four (4) of whom, including the Chairman, are Independent Directors. It was created precisely to assist the Board in the fulfilment of its oversight responsibilities over the financial reporting process, the system of internal control, the management of financial and non-financial risks, the audit process, and the Group's process for monitoring compliance with laws and regulations including related party transactions.

The Executive Committee is composed of six (6) directors with Dr. Lucio C. Tan as Chairman and Mr. Harry C. Tan, Mr. Lucio K. Tan, Jr.[2], Mr. Michael G. Tan, Ms. Juanita T. Tan Lee, and Ms. Florencia G. Tarriela as its members. As provided in its Charter, the Committee is vested with the powers of the Board only insofar as managing the business and affairs of the Company. However, it is excluded from exercising any powers which are expressly reserved to the Board of Directors under the laws of the Philippines, the corporate By- Laws and the Group's Revised Corporate Governance Manual.

The Group's Nomination and Compensation Committee is composed of six (6) directors with Dr. Lucio C. Tan as Chairman and Mr. Harry C. Tan, Mr. Lucio K. Tan, Jr.,[3] Mr. Michael G. Tan, Ms. Juanita T. Tan Lee and Mr. Wilfrido E. Sanchez as its members. The Committee meets at least once a year in compliance with its charter for purposes of ensuring a formal and transparent Board nomination process in selecting, compensating, monitoring and, when necessary, replacing key executives as well as overseeing succession planning.

The Group believes that good corporate governance is vital in its pursuit of becoming a world-class conglomerate, able to stay "at the forefront of the Philippine economic growth and successfully maintaining a strong presence and dominant position in key Philippine industries while ensuring continuous benefits to its consumers, communities, employees, business partners and shareholders." To do so, it has created a Corporate Governance Committee composed of five (5) directors and carefully placed Ms. Florencia G. Tarriela as its Chairman and Mr. Lucio K. Tan, Jr.,[4] Mr. Michael G. Tan, Mr. Johnip G. Cua and Mr. Wilfrido E. Sanchez as its members.

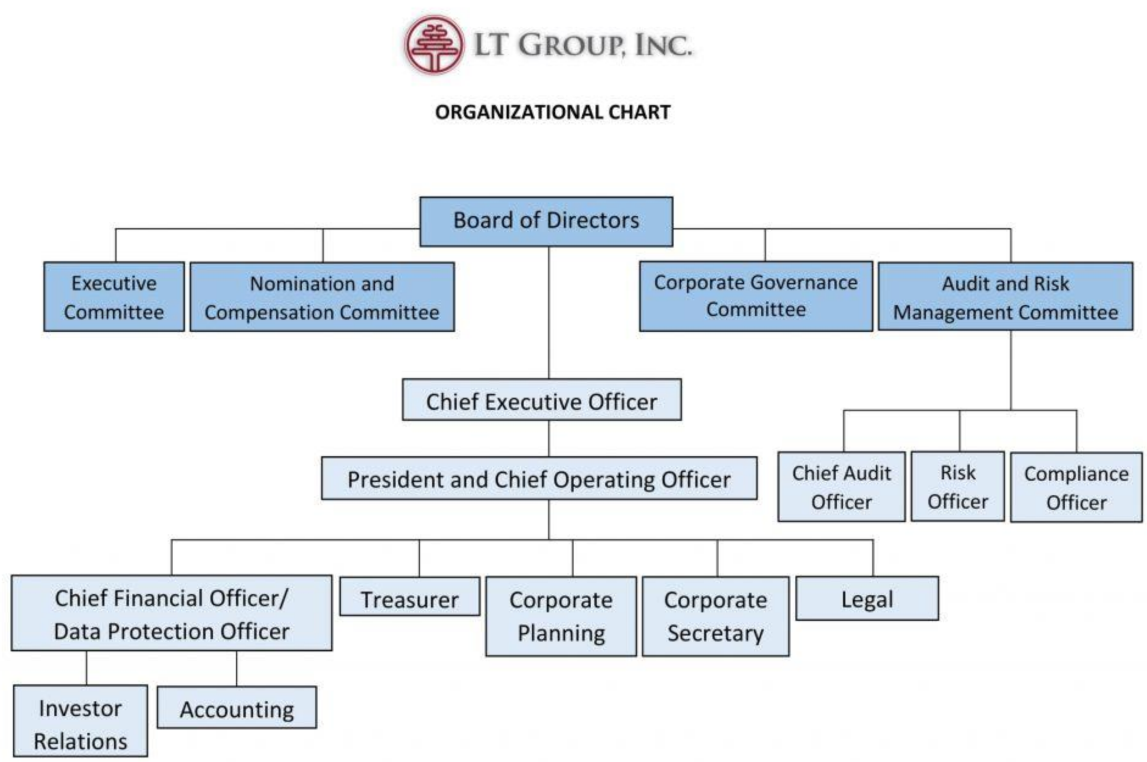
The Committee was created precisely to oversee the periodic performance evaluation of the Board, its committees and the executive management, among others. It must make sure, through these periodic

[2] Passed away on 11 November 2019 and succeeded by Mr. Lucio C. Tan, III on 17 December 2019.
[3] ibid.
[4] ibid.

evaluations, that a Director is capable of fulfilling and has been adequately carrying out his duties and responsibilities as such. Pursuant to the Group's Revised Manual on Corporate Governance, the Committee meets at least twice a year or as often as may be necessary.

As of this reporting period, there has been no significant changes to the Group's size, structure, and ownership.

Organizational Chart



Supply Chain Management

Asia Brewery Inc.

ABI's energy drink concentrates are sourced primarily from well-known international suppliers. Sugar is procured from third and related parties and local suppliers including Victorias Milling Corporation, generally under supply contracts of up to one year. ABI also purchases carbon dioxide and other additives from local producers. Quality water is the primary ingredient in the water bottling business of ABI. Water is sourced primarily from sites near the bottling plants and undergoes several purifying steps to ensure it meets standards.

ABI manufactures the majority of the bottles used for its beverage products. These are manufactured at ABI's Cabuyao plant in Laguna. Bottling and packaging materials, including aluminum closures, crowns and corrugated cartons are produced by ABI's subsidiary, Packageworld, Inc., which purchases any required raw materials from multiple suppliers in the Philippines and internationally.

Eton Properties Philippines, Inc.

Eton has a wide network of local suppliers. Most suppliers and contractors are based in the National Capital Region. For the construction of its buildings, a dedicated department conducts canvassing, bidding and accreditation process for all contractors. All items for procurement also have to undergo the canvassing, bidding and accreditation process before being recommended for purchase. All suppliers must have complete regulatory registration and incorporation documents to be accredited.

Philippine National Bank

PNB's procurement process comprises the following: (1) end user/requesting unit—provides the purchasing unit their sourcing requirements; (2) vendor accreditation unit—ensures that all bank suppliers are accredited; (3) purchasing unit—source out from suppliers, conducts canvassing and cost negotiations, and recommends for purchase; (4) warehouse unit—receives deliveries for issuance to requesting units; (5) accounts control and bills processing unit—prepares requests for payment bookings submitted to Corporate Disbursing for payment processing; (6) and the suppliers—provides the needed items, receives payment from the bank for rendered service.

The current procurement practices of the Bank begin with the engagement of accredited suppliers only, which are those that passed the screening procedures of the Bank's Accreditation and Vendor Management Department. However, non-accredited suppliers may be engaged in instances as seasonal/occasional transactions, one-time engagements, and emergency purchases. The process is then followed by canvassing, bidding, and awarding procedures. During this time, the purchaser provides the supplier with the business requirements. The purchaser secures a minimum of three (3) bids and makes recommendations to the Procurement Committee for approval. The purchaser includes in the recommendation the delivery timeline, quality of materials, payment terms and other requisites. Most of the purchases are sourced from Metro Manila-based suppliers. There are only a few items which are sourced from local suppliers (province-based) to minimize the logistical costs.

On the other hand, the development and mode of distribution of PNB products and services take into account customer needs and preferences, guided by the Bank's established policies and systems on risk management, compliance transparency, and data privacy. PNB's Retail Banking Sector's supply chain consists of organic products and services delivered through its nationwide network of branches, electronic banking channels, and outsourced services. It also provides its clientele with products and services supplied by its joint venture partners, Allianz PNB Life Insurance, Inc. and PNB-IBJL Leasing and Finance Corporation; bank subsidiaries PNB General Insurers Co., Inc. and PNB Capital and Investment Corporation; as well as a third -party service providers selected through a rigid vendor accreditation process. The Institutional Banking Sector's PNB Connect, on the other hand, harnesses the supply chain by bringing together an entire community of small and medium enterprises, suppliers, and their customers. The PNB Connect is the Bank's response to the heightened demand for sophisticated, technology-based financial products that are offered by other banks, non-financial institutions and non-traditional competitors. Examples of these products are Bayad Connect, Corporate Remote Collection System, and Credit Product Programs for industries in the power distribution, automotive, construction and consumer goods production.

Tanduay Distillers Inc.

TDI uses ethyl alcohol, which is distilled from sugarcane molasses. TDI obtains most of its ethyl alcohol from its two subsidiaries – Asian Alcohol Corporation and Absolut Distillers, Inc. and other suppliers. Manapla Distillery which is owned by Victorias Milling Company, is also one of the alcohol suppliers of TDI.

The distillery companies obtain their molasses from sugar mills and traders. Major suppliers are Universal Robina Corporation, Victorias Milling Corporation, Binalbagan Sugar Company, LYL Marketing, Shuurmans & Van Ginneken Phils., Inc., Grandcane Company, Inc., and Tate & Lyle Corporation.

As of this reporting period, there has been no significant changes to the Group’s supply chain.

Membership of Associations

Asia Brewery, Inc.

ABI's bottled water plant in Cabuyao has been a member of the International Bottled Water Association (IBWA) since it started its bottled water business in 1992. IBWA, in reference to the Code of Federal Regulations of the United States Department of Health and Human Services' Food and Drug Administration, prescribes the Good Manufacturing Practices for Processing and Bottling of Bottled Drinking Water. This includes specific design and performance requirements for determining whether the facilities, methods, practices, and controls used in the processing, bottling, holding and shipping of bottled drinking water are in conformance with or are operated or administered in conformity with good manufacturing practices to assure that bottled drinking water is safe and has been processed, bottled, held and transported under sanitary conditions.

Eton Properties Philippines, Inc.

Eton is a member of the Credit Management Association of the Philippines (CMAP), the Philippine Association of National Advertisers (PANA), the Subdivision and Housing Developers Association (SHDA), the Chamber of Real Estate Brokers' Association (CREBA), the Philippine Tour Operators Association, Inc., the Executive Housekeepers Association of the Philippines, the Association of Credit Executives in the Tourism Industry, Inc., and the Employers Confederation of the Philippines, Inc.

For SHDA, we view membership as strategic and desirable for Eton because it keeps us abreast on current developments in the Housing sector, plus it gives us an avenue, as developer, to air our issues with our regulator, the DHSUD (formerly HLURB), and lobby for changes in regulations adversely affecting Eton as developer.

Philippine National Bank

PNB has the following industry memberships: Integrated Bar of the Philippines; Bankers Association of the Philippines; Association of Certified Fraud Examiners; ACI Philippines, The Financial Markets Association, Inc.; Association of Certified Public Accountant in Commerce; Association of AML Officers (AMLO); Association of Bank Compliance Officers (ABCOMP); Agusan Chamber; Asian Bankers Institute; Asian Bankers Association; Bankers Institute of the Philippines; Bank Marketing Association of the Philippines; British Chamber; Bank Security Management Association; Credit Management Association of the Philippines; Credit Card Association of the Philippines; Executives Finance Management Association; Federation of the Philippine Industries, Inc.; Financial Executive Institute of the Philippines; Financial Technology of the Philippines; Institute of Corporate Directors, Inc.; Institute of Internal Auditors of the Philippines, Japanese Chamber; Korean Chamber; Information Systems, Audit and Control Association; Makati Commercial Estate Association, Inc.; Management Association of the Philippines; Money Market Association of the Philippines, Inc.; Philippine Association of National Advertisers, Inc.; Philippine Chamber of Commerce and Industries, Inc.; People Management Association of the Philippines; Mabuhay Miles; Philippine Business Coalition for Women Empowerment; Philippine Payments Management, Inc.; Public Relations Society of the Philippines; Rotary Club; Tax Management Association of the Philippines; Trust Officers Association of the Philippines; Women's Business World.

Tanduay Distillers Inc.

TDI is a member of the Distilled Spirits Association of the Philippines and the Bioethanol Producers Association, which serves as the medium for presenting the industry position in case of major changes in regulations.

About this Report

Reporting Scope and Boundary

This is our first sustainability report, which presents our sustainability performance as of and for the year ended December 31, 2019, unless otherwise indicated. We at LTG believe that sustainability is an essential feature of the way we do business because our resilience in the future partly depends on it. Together with our annual report, this sustainability report aims to communicate to you our commitment to sustainability, what we are doing about it, and where we are going.

This sustainability report covers LTG, as the holding company, and our subsidiaries operating within the Philippines particularly ABI, Eton, and TDI. PNB, which was part of the materiality assessment process we have conducted for this report, has prepared its own sustainability report that complements this report. PMFTC has not been included in the materiality assessment process and, as such, will not be covered in detail because it is under the management of Philip Morris International Inc. (PMI) and will be included in PMI's sustainability report.

Due to the diverse nature of our businesses—beverages, property development, tobacco, banking, and distilled spirits—some differences may be observed in terms of material issues and context. However, common issues have been consolidated for the Group enabling the reader to get a good grasp of our big picture.

No assurance has been sought for the non-financial disclosures presented in this report, but this is of primary consideration in the future as our reporting matures. All financial data and general information about the business in this report, however, have been disclosed in our 2019 Annual Report.

Economic Performance Boundary

LTG's economic performance data presented in this report is from the consolidated financial statements as of and for the year ended December 31, 2019 covering LTG, as the parent company, and all its subsidiaries and associates operating in the Philippines and abroad. For more information, please refer to the 2019 Annual Report.

Reporting Approach

In the preparation of this report, we used the principle of Materiality to determine our key issues. Utilizing a framework developed for this purpose, we came up with a long list of potential material issues gathered from internal and external sources, and prioritized according to input from internal stakeholders via both quantitative and qualitative metrics to identify which material issues have the capacity to impact the Group and our operations, and its impact to our various stakeholders.

Sustainability Reporting Guidelines and Standards

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option, and the sustainability reporting guide provided by the Philippine SEC in Memorandum Circular No. 4, Series of 2019. We have also aligned this report to the 17 United Nations (UN) Sustainable Development Goals (SDGs) to further our commitment in contributing to the global sustainable development agenda.

Stakeholder Engagement Mechanisms

Our Board of Directors is tasked with identifying our stakeholders in the communities where the Group operates in or those that are directly affected by our operations. The Board then formulates a clear policy of accurate, timely, and effective communication with identified stakeholders. Our stakeholders include our *stockholders*, *employees*, *customers*, *trade partners*, and the *government*.

We engage with our stakeholders in through a number of ways including but not limited to:

1. Annual Shareholders' Meeting
2. Annual Press Briefing
3. Quarterly Analysts' Briefing
4. Meetings with the Congress
5. Investors' Conference (as needed)
6. Private Meetings (as needed)
7. Conference Calls (as needed)
8. Plant Visits (as requested)

The Group also maintains open communications with the investing community to promote greater understanding of our businesses. Reports to the SEC and PSE are disclosed on time, and are available for viewing and downloading in the Group's website. There is also a dedicated Investor Relations Officer and the Group may also be corresponded with through email and/or telephone calls.

Across our subsidiaries, ABI maintains a Customer Complaint Report and conducts a regular Customer Satisfaction Survey. Eton's Property Management Group and Customer Support Team manage on-site concerns and concerns from existing clients, respectively. PNB's Customer Experience Division manages all client concerns and complaints through a variety of channels 24 hours a day, 7 days a week. TDI maintains a number of channels including their website, email address, phone numbers, and social media profiles through which customers may relay any issues and concerns.

The key topics and concerns raised during the Annual Shareholders' Meeting, Annual Press Briefing, and Quarterly Analysts' Briefings are the financial results of the Group, future plans of operations, and other significant changes on the operations of the Group. As for the meetings with the government, significant updates on the regulatory compliance especially on taxes are discussed.

Sustainability Report Feedback

We aim to improve our reporting over the course of time to meet the highest standards of reporting and meet stakeholders' expectations. On our first sustainability report, we would like to know how well we have done on any aspect of this report or if you have any suggestions for improvement—from content to design and presentation, among others, you may reach us at sustainability@ltg.com.ph.

Our Approach to Materiality

Our journey to sustainability is informed by our materiality assessment process. We looked at a variety of sources and conducted workshops to assess and determine the most critical material issues that have the highest capacity to impact the Group, internally, and its stakeholders, externally.

Scan

- Global standards, issues and mega trends that affect the industries we are engaged in
- Regulatory requirements
- Material issues identified by our peers
- Media coverage around the Group and potential material issues identified
- Review of internal policies and board papers identifying potential material issues

Prioritize

- Collected data analyzed quantitatively and qualitatively
- List of identified potential material issues voted according to order of importance to stakeholders and impact on and of the business

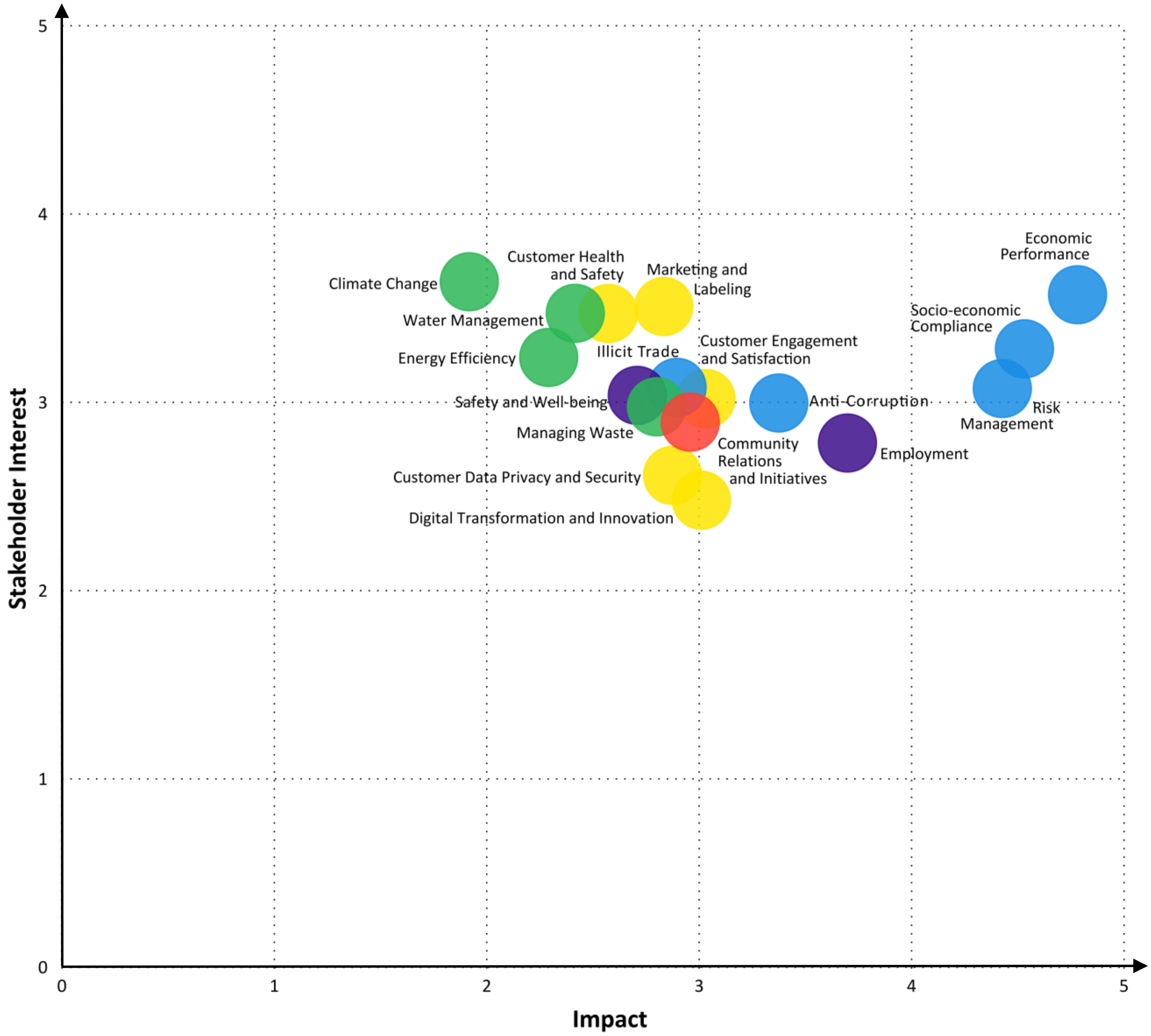
Validate

- Meeting and discussion with key management executives on prioritized material issues to see alignment with group strategy

From a long list of 44 material issues, we were able to prioritize to 17 top material issues and these were validated by key management officers.

Materiality Matrix

Our materiality matrix shows the 17 key material issues that were identified to have the most significant impact and stakeholder interest.



CATEGORY	KEY MATERIAL ISSUE	CATEGORY	KEY MATERIAL ISSUE
ECONOMICS AND GOVERNANCE	Economic Performance	ENVIRONMENT	Water Management
ECONOMICS AND GOVERNANCE	Socio-economic Compliance	SOCIETY	Community Relations and Initiatives
ECONOMICS AND GOVERNANCE	Risk Management	EMPLOYEES	Safety and Well-being
EMPLOYEES	Employment	ENVIRONMENT	Managing Waste
ECONOMICS AND GOVERNANCE	Anti-Corruption	ENVIRONMENT	Energy Efficiency
CUSTOMERS	Marketing and Labeling	ENVIRONMENT	Climate Change
CUSTOMERS	Customer Health and Safety	CUSTOMERS	Digital Transformation and Innovation
CUSTOMERS	Customer Engagement and Satisfaction	CUSTOMERS	Customer Data Privacy and Security
ECONOMICS AND GOVERNANCE	Illicit Trade		

Our Key Material Issues

	Material Issues	Relevant SDGs
1	Economic Performance *Maintaining profitability to return a dividend and re-invest in products and services. This also covers stable revenues in the event of political and economic uncertainties, market competition, pressure from regulatory bodies, and employing strategies to increase market share.*	8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
2	Socio-economic Compliance *Complying with socioeconomic laws and regulations, and regulatory changes in both financial and non-financial reporting*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
3	Risk Management *Managing risks that may greatly impact the Group's operations and performance. This includes systems and policies in place to address potential credit, market, interest rate, liquidity, security, reputation and other risks relevant to the operations of its subsidiaries.*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
4	Employment *Attracting and retaining highly capable individuals to support high performance, and includes employee wages and other forms of compensation such as bonuses and executive remuneration, as well as fostering gender equality in the workplace.*	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH
5	Anti-Corruption *Demonstrating integrity, transparency, governance, and responsible business practices, as expected by the marketplace, international norms, and stakeholders*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
6	Marketing and Labeling *Providing customers access to accurate and adequate information on the positive and negative economic, environmental and social impacts of the products and services they use–both from a product and service labeling and a marketing communications perspective. This also includes communication of customer protection policies and laws.*	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
7	Customer Health and Safety *Protecting and promoting health and safety of our customers through assurance of product quality, effective safety risk management and promotion of a safety culture. This also refers to ensuring that products are free from toxic or hazardous contents that may endanger customer safety.*	3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION

8	Customer Engagement and Satisfaction *Meeting customer expectations and needs in delivery of our products, services and experiences. This also ensures that customer complaints are recorded, monitored, resolved and reported to regulatory bodies, as applicable.*	
9	Illicit Trade *Implementing policies and measures to ensure the security of aspects in the supply chain which could be most susceptible to illegal trading and counterfeiting. This entails full cooperation with law enforcement agencies, and engagement with policymakers for a more effective and balanced regulation.*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
10	Water Management *Optimizing the use of water resources, including management of water treatment of drinking water, industrial water, sewage or wastewater, water resources and flood protection*	6 CLEAN WATER AND SANITATION 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
11	Community Relations and Initiatives *Maintaining our social license to operate through engagements with the community*	1 NO POVERTY 2 ZERO HUNGER 3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
12	Safety and Well-being *Protecting and promoting health, safety and well-being of our employees and contractors through effective safety risk management and promoting a safety culture*	3 GOOD HEALTH AND WELL-BEING 8 DECENT WORK AND ECONOMIC GROWTH
13	Managing Waste *Managing and minimizing waste, including responsible waste management by resource reduction, reuse, recycling and reprocessing, waste treatment and waste disposal*	3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
14	Energy Efficiency *Managing and minimizing energy use, increasing efficiency measures and using low-carbon emission energy sources*	7 AFFORDABLE AND CLEAN ENERGY 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION
15	Climate Change *Ensuring that the Group is prepared to anticipate, address, and recover from impacts of climate change that might pose risks to the workforce, cause disruption to operations and/or loss of property*	13 CLIMATE ACTION
16	Digital Transformation and Innovation *Implementing digitalization of products and services to streamline customer experience. This also refers to other innovations that capitalize on current trends on blockchain, artificial intelligence, etc. This also includes cybersecurity and cyber resilience measures within the Group.*	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

17	Customer Data Privacy and Security *Managing the privacy of customer information and ensuring personal information is secure against fraud and theft*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Unique Material Issues across Subsidiaries

During the materiality assessment process, we determined unique key material issues across some subsidiaries. Although we did not include specific disclosures for these material issues in this report as we will be reporting on them in future editions, we have included them here for information.

Material Issues	Relevant SDGs
ABI and PNB	
Learning and Development *Developing our workforce capabilities, skills and competencies to create a positive and sustainable organizational culture*	4 QUALITY EDUCATION; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
ABI and TDI	
Environmental Compliance *Complying with environmental laws and regulations*	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
ABI	
Greenhouse Gas Emissions *Managing and minimizing emissions to free the air of pollutants – including carbon and other greenhouse gases (GHGs)*	3 GOOD HEALTH AND WELL-BEING; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION; 14 LIFE BELOW WATER; 15 LIFE ON LAND
Labor/Management Relations *Using consultative practices with employees and their representatives, including communicating significant operational changes*	8 DECENT WORK AND ECONOMIC GROWTH
PNB	
Indirect Economic Impact *Supporting infrastructure investments and public services that are additional consequences of the direct impact of financial transactions and the flow of money between PNB and its stakeholders*	8 DECENT WORK AND ECONOMIC GROWTH
TDI	
Materials Stewardship *Using materials efficiently and judiciously, whether renewable or non-renewable, necessary for the provision of products and services*	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Supply Chain Management *Supporting local suppliers, or those owned by women or members of vulnerable groups, and assessing procurement practices that may cause or contribute to negative impacts in the supply chain*	10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Our Strategy and Performance

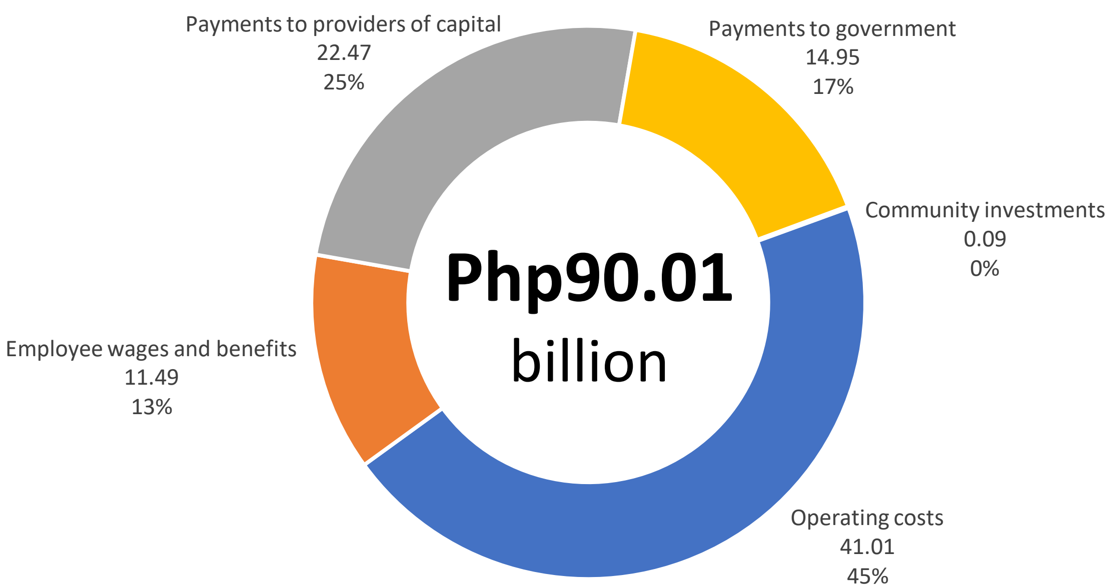
In the following sections, you will find out more about our sustainability journey in 2019. The disclosures have been divided into five categories — Economics and Governance, Environment, Employees, Customers and Society – with the corresponding key material issues contained therein.

Economics and Governance

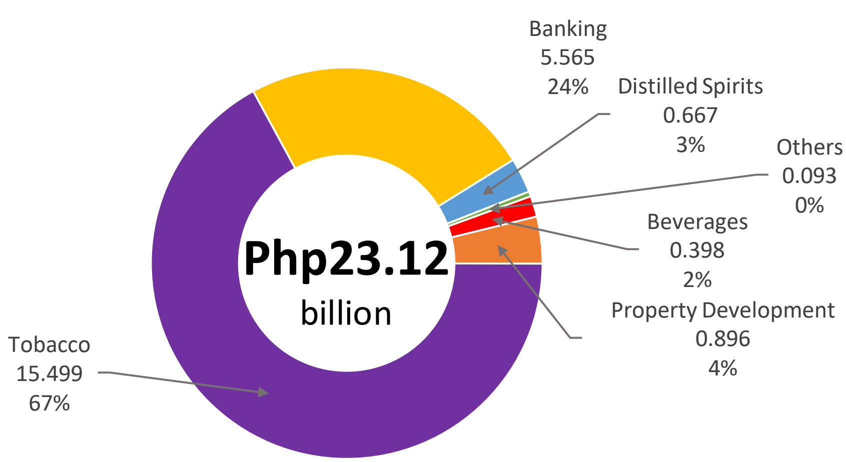
Economic Performance

This year was a banner year for LTG. Our economic performance hit record-breaking heights due to our strong commitment to excellence in doing business. Our total revenues for this reporting period is Php114.25 billion. Our total operating costs amounted to Php41.01 billion, while employee wages and benefits accounted for Php11.49 billion. Payments to government accounted for Php14.95 billion, and payments to providers of capital amounted to Php22.47 billion. Our total community investments is at Php0.09 billion from various donations of our subsidiaries. As of the end of the current reporting period, the economic value retained is at Php24.24 billion.

Economic value distributed, 2019 (in billion pesos)



LTG Attributable Net Income, 2019 (in billion pesos)



Socio-economic Compliance

Businesses play an important role in nation-building. It provides jobs for people, helps create economic value and drive growth, nurtures innovation, and can significantly contribute to long-term progress. However, due to the numerous areas that businesses can affect, it also has the potential to have negative impacts to societies and economies. We recognize the importance of how our businesses operate and its compliance to social and economic laws, rules and regulations.

Across the Group, our Corporate Governance Committee, together with our Compliance Officer and Corporate Secretary, ensures that we are able to consistently comply, and aim to go beyond compliance, with all conditions set by Philippine regulatory bodies and legislation, as well as international standards. Our Manual on Corporate Governance, which contains our Code of Business Conduct and Ethics, mandates that all personnel in the business, regardless of rank or seniority, abide by all government laws, rules and regulations. This is cascaded on to our employees as part of onboarding procedures and is available on our corporate website for easy reference to anyone who wishes to access the document.

In terms of reporting to regulatory bodies, we ensure strict and timely compliance with the requirements set by the SEC, the PSE and the Bureau of Internal Revenue (BIR), among others. This allows us to avoid penalties due to late submissions and also paves the way for us to improve our reporting methods and immediately take corrective measures to address regulatory issues and concerns.

For 2019, there was one incident of non-compliance with laws and regulations in the social and economic area with a final decision and a monetary fine amounting to Php61,600.00. This incident of non-compliance was due to an oversight in the updating of the LTG website as per SEC regulation. This was promptly addressed with the necessary fines paid, thus we are now compliant to regulation. We are committed to ensure that no incidents of non-compliance are recorded for the next reporting period and that any incident that may arise is resolved immediately.

Risk Management

Businesses are faced with risks—from shifts in the economy, operations and strategy to changes in legislation and taxation. With this in mind, it is imperative that businesses manage risks and use it to its advantage to create value and nurture sustainability.

Our Enterprise Risk Management (ERM) system is in place to help us mitigate risks for value creation and sustainable growth. Our Chief Risk Officer ensures continued compliance with SEC regulations on the implementation of risk management activities aligned with its risk management framework. Our ERM system is partly based on the Enterprise Risk Management - Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

At PNB, the Risk Management Group (RMG) ensures that needed processes and procedures are implemented to successfully operationalize the Bank's own ERM Framework, aligned to the risk governance framework and the three lines-of-defense model. PNB's Risk Oversight Committee, which meets monthly, looks into the Bank's constantly changing risk profile based on the material risks defined in the its Internal Capital Adequacy Assessment Process (ICAAP) document. To ensure consistent risk management and monitoring, the RMG directly engages with all levels of the organization across its business and support groups, which includes ongoing training activities and learning sessions to properly equip personnel. For new employees, the RMG conducts trainings twice a month on business continuity, data privacy awareness, operational risk, and ICAAP during the New Employees Orientation Program. For existing employees, the RMG conducts the Risk Education and Awareness Program annually to employees in both domestic and overseas branches covering business continuity, data privacy awareness, trust risk, credit risk, market risk, operational risk and ICAAP. RMG maintains a database of employees who have attended and have yet to attend risk trainings.

Anti-Corruption

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Our strong commitment for fair and equitable business practices ensures that we do not engage in corrupt activities. We comprehend the negative effects of corruption on people's lives and do our best to counter it.

Across the Group, our Code of Business Conduct and Ethics ensures that we do not engage in nor condone any act of bribery or corruption with government officials in order to facilitate transactions. The Code also ensures that all our Directors, Officers, and Employees comply with all government rules, laws, and regulations, and to conduct themselves in a way that avoids conflicts of interest. Approved by our Board, the Code is aligned to the standards set by SEC in accordance with internationally accepted standards. The Board also conducts regular reviews of the Code to ensure its continued relevance and to update when needed. We conduct regular refresher sessions on the Code to existing employees, and as part of onboarding procedures for new employees. The Code is also available on our corporate website for easy reference to anyone who wishes to access the document.

For any suspected cases of corruption, employees may report to their immediate supervisor who shall determine the existence of reasonable ground to escalate the matter. Directors and Officers shall then report any known or suspected cases of corruption to the Chairman of the Corporate Governance Committee. Alternatively, employees and officers may also use the Whistle-Blower Policy, which allows one to report any instances of suspected or known unethical behavior or corruption anonymously.

100%

of all our employees, business partners and governance body members know of our anti-corruption policies

To further enhance our action against corruption, our subsidiaries also have their own policies that complement the Group's Code. ABI, Eton, PNB and TDI have their own Code of Conduct and Ethics. ABI, apart from the Code of Conduct, maintains a Labor Management Council and Committee on Right Ethics (CORE) which helps manage cases of misconduct and corruption. Eton's Code of Ethics contains a no-gift policy. PNB maintains a policy on Soliciting and Receiving Gifts and a policy on Office Decorum, which includes anti-bribery and anti-corruption clauses. TDI has Conflict of Interest Policy, aside from the Corporate Code of Conduct.

Due to our commitment and drive against corruption, there has been no instance of corruption nor have there been any cases reported through our Whistle-Blower Policy in 2019. We continue our commitment to maintain zero cases of corruption for 2020 and moving forward.

Environment

We recognize the importance of the natural environment in building a sustainable foundation for our business. From the environment comes the resources that we use to deliver our products and services, and we are committed to protect it not just for the current generation but for the generations of the future. Our commitment to help save our environment is long-standing as evidenced by our initiatives that began prior to 2019.

At ABI, we began producing water in glass bottles to provide an alternative to single-use plastics. In 2019, ABI sold 544,776 glass bottles of water in 330ml and 1000ml variants. In addition, through ABI's partnership with the World Wide Fund for Nature (WWF), we have committed to give Php1.00 million of our sales proceeds annually to be used for WWF's transformational programs for water conservation.

At Eton, we have shifted to clean and renewable energy sources for our office buildings. Our office buildings in Eton Centris are powered by geothermal energy through Cleanergy of AboitizPower, a starting point for more clean energy initiatives in the future for our properties.

At PNB, we have an ongoing multibillion-peso financing program to support eco-friendly and sustainable businesses and projects that promote nation-building and countryside development, environmental protection and conservation, and sustainable development. In 2019, over 40% of the total loans of the Bank were used to finance green and sustainable businesses and projects in the food and manufacturing industry, the energy transmission, generation, and generation industry, and the infrastructure development industry.

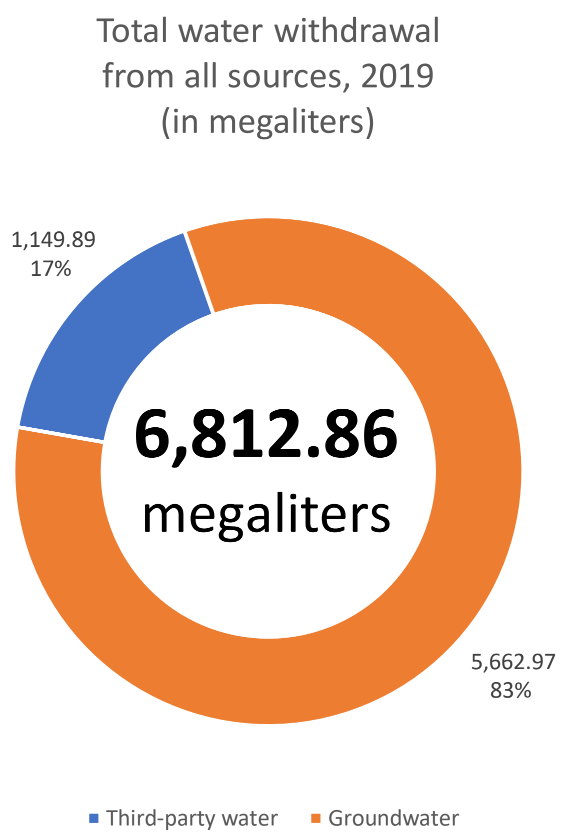
At TDI, to support the shift for using renewable sources of energy, our solar power and bioethanol facilities in Lian, Batangas have helped bridge the gap in making clean energy accessible to interested parties. On the other hand, our carbon dioxide by-product from TDI's production, which would otherwise be released to the atmosphere, is converted to dry ice. Waste water or sludge is also converted to fertilizer as part of our effort for zero effluent discharge.

In a world with rapidly changing climate conditions, our businesses are faced with new threats and opportunities that shape the way we operate. We constantly do our best to meet and go beyond regulatory compliance to effectively manage our overall environmental footprint. We look to new ideas and innovate on what we can do to contribute to efficient resource use and address the impacts of climate change.

Water Management

As the world feels the effects of climate change, water scarcity has become the new normal. Our Group takes very seriously the impact of water scarcity to our operations as well as how we impact water resources. Across the Group, we strictly observe and comply with regulation related to water consumption and management.

At ABI, we observe strict monitoring of our water consumption and how we manage our waste water through our Water Treatment Process and our Waste Water Treatment Process, respectively. We observe



strict compliance with regulation and have secured all necessary permits and installed all required equipment to allow us to draw water from our deep wells sustainably.

At Eton, we have strengthened our campaign to encourage our property tenants and residents to conserve water at all times. We sent out circular memoranda to remind them to check if there are leaks in their faucets and showerheads, and to make sure that their faucets and other water sources are turned off when they leave the premises to prevent any water wastage.

At PNB, the water that we use is purchased from a third-party water services provider. At our head office in Pasay, waste water is treated at our Sewage Treatment Plant (STP) before being released to the Manila Bay in strict compliance with conditions set by regulators. At our offices in Makati, waste water is discharged to the sewer lines of our third-party water services provider and subsequently treated at their STP. We continue to look for better ways to improve our water consumption. For example, we have adjusted the flushing mechanisms of our water closets to reduce the volume of water being used per flush in toilets and urinals as well as the replacement of defective faucets and leaking water valves.

At TDI, our Water Resource Management Toolkit is strictly implemented to ensure our operational compliance to regulation. Using the tool, we conduct monthly monitoring of our water consumption through sub-meters on all points-of-use. The extraction of water from our deep wells is under strict compliance with the conditions set by the National Water Resources Board (NWRB) which regulates and monitors the volume of water we extract. We ensure that our liquid chemical waste is hauled by accredited third-party contractors and is treated properly by requiring a Certificate of Treatment. We also partner with local non-government organizations (NGOs), like the Cabuyao River Protection Advocates, in activities that improve and protect the water quality of receiving water bodies. Ongoing initiatives include the Adopt-a-River program where we adopted Cabuyao River in Cabuyao, Laguna and the Adopt-an-Estero program where we adopted Cabungan-an Creek in Murcia, Negros Occidental. We regularly conduct river and creek clean-up activities, the installation of trash catchment mechanisms, and an education campaign for the community regarding environmental stewardship.

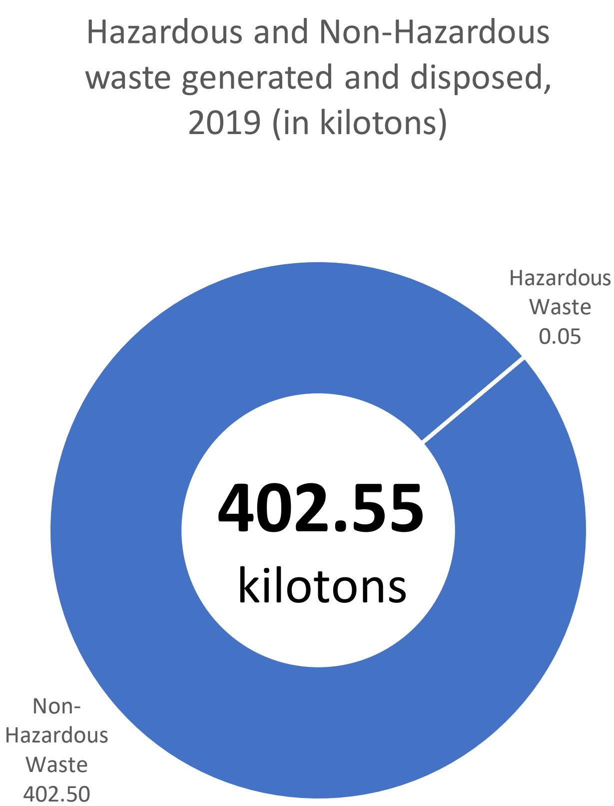
For this reporting period, our total water withdrawal is 6,812.86 megaliters (ML), where 5,662.97 ML is from groundwater sources and 1,149.89 ML is from third-party water suppliers.

Managing Waste

Waste management is an important part of our operations and how we manage our environmental footprint. We are continuously looking for better ways to dispose of our waste. We are also looking at better ways to work so we can lessen the amount of waste we produce thereby cutting cost on waste disposal services and lessening our impact to the environment.

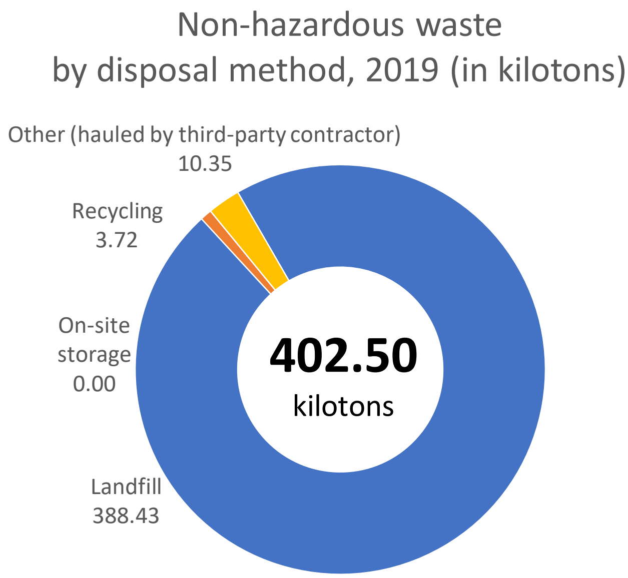
Across the Group, we have encouraged internal communication to be only be transmitted electronically to limit the use of paper. We have also promoted two-sided printing and repurposing scratch paper for second use. LTG, ABI and Eton strictly observe proper waste segregation. Waste from LTG and Eton is handled by the respective building management where LTG and Eton are tenants. Waste from ABI is handled by a third-party contractor that has been accredited by Department of Environment and Natural Resources (DENR) to handle hazardous and non-hazardous wastes.

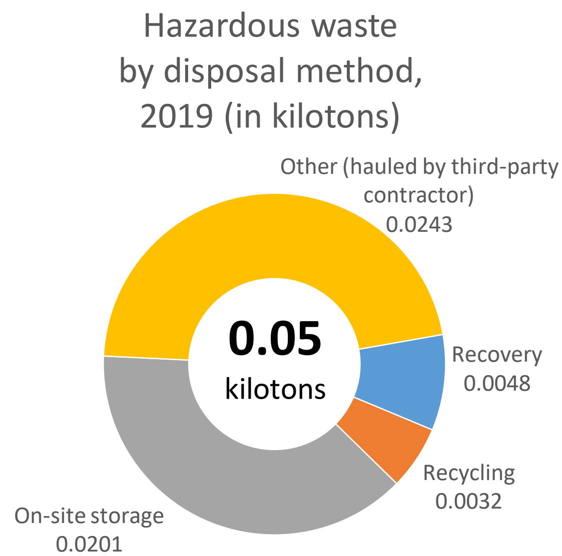
At PNB, our solid waste is managed by third-party contractors. We have ensured that these contractors are compliant with government regulation as part of our due diligence procedures. These contractors work with our designated Pollution Control Officers who take the lead in monitoring our waste disposal system and provide needed insight on how we can continue to improve our performance.



At TDI, our Solid Waste Management Plan is strictly implemented in all our plants to manage and control solid waste in compliance with the conditions set by our Environmental Compliance Certificate (ECC). We have third-party contractors who haul and dispose of our solid waste. As part of due diligence, we ensure that our contractors have the necessary government accreditation. The Pollution Control Officers of each plant evaluate the performance of their respective plants and report this to the regulators. The results of the evaluation are discussed during the regular Environment, Health and Safety (EHS) meetings for steps forward.

For 2019, we generated and disposed of 0.05 kilotons and 402.50 kilotons of hazardous and non-hazardous waste, respectively. We also disposed of 633 pieces of lead acid batteries through our accredited third-party service providers. Due to the strict and efficient implementation of our solid waste management plan, as well as a Group-wide campaign to reduce waste, no violations or non-compliance incidents have been reported.





Energy Efficiency

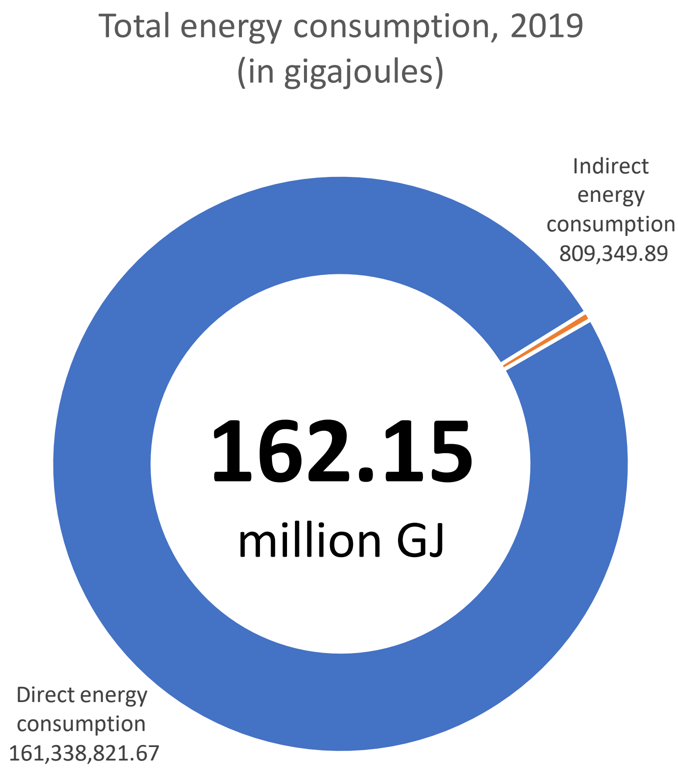
Across the Group, we continue to strengthen our energy efficiency efforts that promote energy conservation and reduce our overall carbon footprint. For example, we use LED lights across most of our offices and sites to replace conventional bulb and tube lights.

At the LTG office, we have set the air-conditioning units at 25 degrees Celsius to ensure maximum energy efficiency. Employees are also asked to only turn on equipment when needed and to unplug unused equipment. We also promote carpooling and the use of our company car service to help them in their commute.

At ABI, we have allocated resources and implemented our Energy Management System Policy for our beverage manufacturing plants where we saw a 15% improvement in energy consumption.[5] At ABI Cabuyao, we were able to reduce our coal consumption by 33% and increase efficiency after we conducted maintenance and rehabilitation work on our steam boiler.[6] In June 2019, at our ABI Bottled Water Plant (BWP) in Sta. Rosa, Laguna, we optimized our PET (polyethylene terephthalate) Blowing Machine Preform Oven by converting it into an Eco-Oven Module Assembly that uses less power to operate and has resulted in 25% energy efficiency for two lines of the BWP.[7] Other activities that sought

[5] Using 2018 as base year.
[6] ibid.
[7] ibid.

to improve, repair or maintain refrigeration systems, among other equipment, have all led to reduced energy consumption and increased energy efficiency.



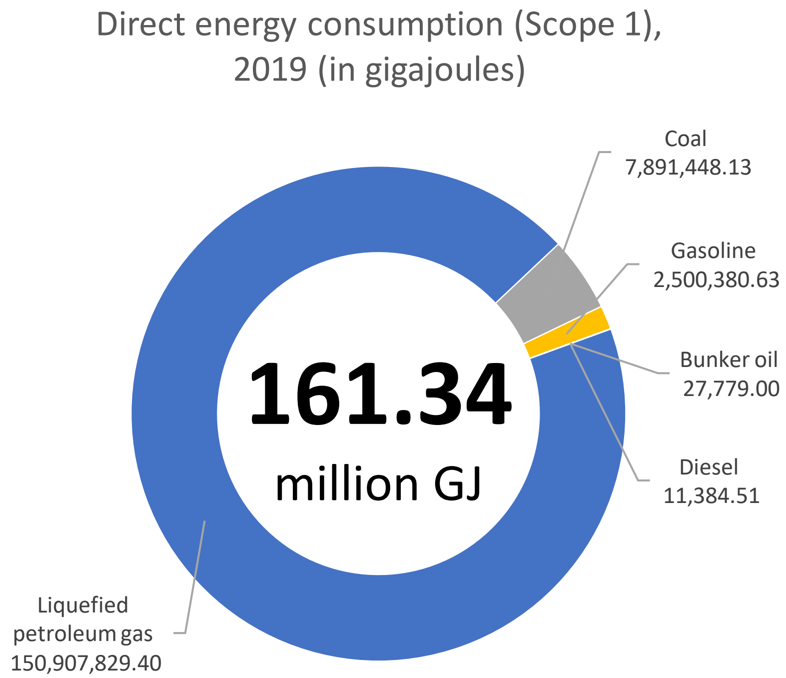
At Eton's head office, our employees are encouraged to turn off office equipment when not in use, which includes the implementation of our lights-off policy during noon break. For our buildings, residents and tenants are reminded through memos to conserve energy by making sure that lights are turned off and appliances such as air-conditioning units are unplugged when not in use.

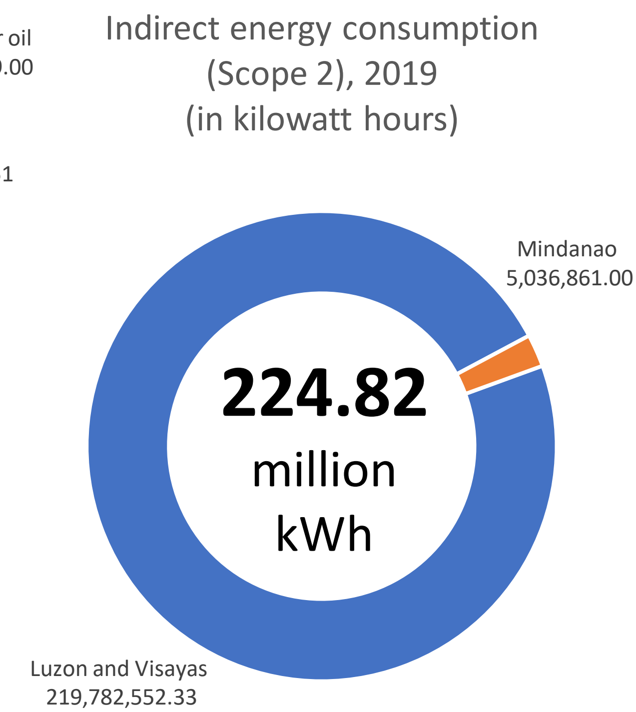
At PNB, we have an energy conservation program that allows us not only to save on our energy costs but also to address our emissions in compliance with regulation. Our main source of direct emissions are our standby generator sets, which are only used during power interruptions. Our Pollution Control Officers monitor these emissions and ensure effective compliance. We also have allocated resources for regular third-party smoke emissions testing to ensure accurate data and assessments. In terms of energy efficiency, we have engaged the services of a third-party provider who provide us with regular reports on the status of our energy efficiency situation. From these reports, adjustments are regularly implemented based on performance and operating conditions.

At TDI, we monitor our energy consumption and emissions in relation to production outputs by using the *energy use ratio* (EUR)[8]. EURs for our three (3) plants differ depending on the factors affecting their operations. The energy consumption of our Cabuyao plant is limited to usage from production as it does not have bottle washing since it uses brand new bottles. The energy consumption of our Negros and El Salvador plants, on the other hand, consider usage in all aspects as they use second-hand bottles requiring bottle washing in their operations. Each plant, led by their respective Pollution Control Officers, submits their energy consumption reports to our Group Safety, Environment and Risk Management (GSERM) Department as part of their environmental key performance indicator (KPI) monitoring. Any positive or negative deviation from the set EUR target is analyzed and steps are made for mitigation and conservation measures.

As of the current reporting period, our total energy consumption across the Group is 162.15 million gigajoules (GJ). Our direct energy consumption (Scope 1) is at 161.34 million GJ, while our indirect energy consumption (Scope 2) from purchased electricity is 0.809 million GJ.

[8] Energy Use Ratio (EUR) – Average total amount of electricity and fuel consumed on-site from all sources converted to mega joules (MJ) for every liter of product produced.





Climate Change

Climate change is not just a buzzword to the Group. It is a real challenge that we consider in our operations today and on to the future.

At ABI, our Manufacturing Continuity Program is a practical guide on how to prevent, prepare, respond and recover before, during and after a disaster, incident or crisis. Our primary considerations include the reduction of employee exposure to health and safety risks, reducing operations downtime, and managing financial loss. Updated annually, this guide covers various scenarios that are due to or made worse by the effects of climate change including severe weather conditions, typhoons, flooding, epidemics, among others. We regularly communicate with regulators and other stakeholders on the impact of our operations to local communities and the climate.

At Eton, we have taken steps in combating climate change by finding ways to use clean and renewable energy. Together with our partners, Eton's office buildings at Eton Centris in Quezon City currently use clean and renewable energy through the MakBan Geothermal Power Plant via Cleanergy of AboitizPower.

At PNB, our long-standing campaign for climate stewardship is expressed through the Bank's sustainability report highlighting the PNB's drive to address the effects of climate change to the business. The Bank is also currently drafting its sustainability financing policy and framework, which will enable us to effectively assess and manage the Bank's environmental and social risks and impacts when doing business.

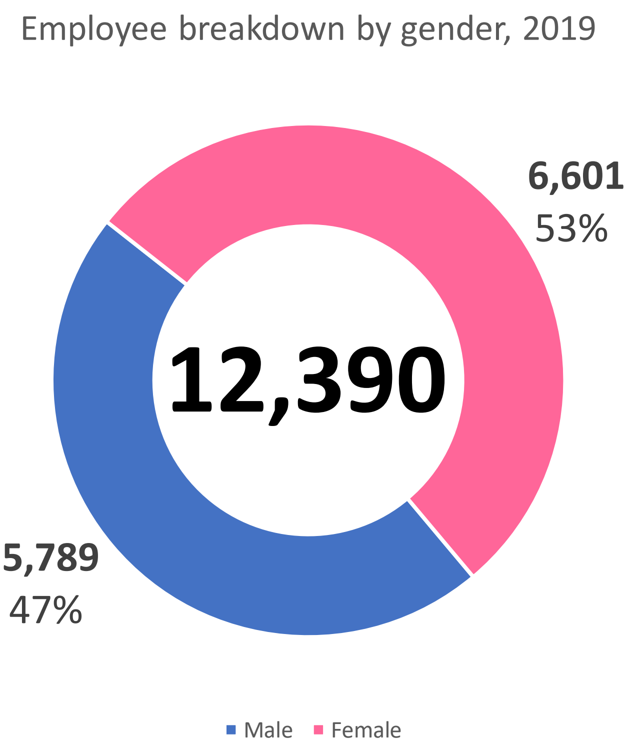
At TDI, we observe strict compliance to DENR's policies on ozone-depleting gases and GHG emissions. Our Incident Management Crisis Resolution Procedure is climate-informed and includes various scenarios caused by or made worse by climate change. We use DENR-approved fuels in our operations such as low-sulfur fuel oil for our boilers. We also participate in various reforestation programs throughout the year. As part of our ongoing plans to strengthen our campaign against climate change, we will be mapping out and measuring our GHG emissions in the near future to implement evidence-based policies to reduce emissions.

Employees

Our businesses rely on the people who work to make our every success possible. Within our workforce can be found exceptional human capital who are our partners in creating sustainable value. We do our best to recruit, retain and nurture our human capital in a safe and healthy work environment that not only fosters creativity and innovation but also gives a strong focus on work-life balance.

Employment

Across the Group, we have a strong commitment to ensure fair employment practices, gender equality, diversity and inclusion. We ensure strict compliance to all requirements of the Labor Code of the Philippines and the General Labor Standards of the Department of Labor and Employment (DOLE) who conduct regular inspections and evaluations on our compliance.



As of 2019, no instances of non-compliance have been recorded and we are at full compliance.

Our employment policies have been created in accordance with labor laws, industry practices, and the existing collective bargaining agreements (CBAs) with the employees' unions. Across the Group, 40% of all our employees are covered by an existing CBA — 22% of employees at ABI, 49% of employees at PNB, and 22% of employees at TDI — and we ensure that we uphold and safeguard the rights of our all employees, whether they are covered by a CBA or otherwise. We have policies on hiring, transfer, promotion, employee benefits, resignation and separation, and learning and development, among others, which are regularly reviewed and evaluated by senior management.

We have a Code of Business Conduct and Ethics which is a guide on professional and ethical conduct for all executives and employees of our businesses. The Code is aligned to the standards set by the SEC in accordance with internationally accepted standards. Embedded in the Code is our Whistle-Blower Policy, which helps us ensure that all incidents of misconduct and unethical behavior are reported anonymously without fear of retaliation.

For any cases of misconduct, disputes or controversies arising from the interpretation, meaning, application and implementation of our CBAs between the union and the concerned business or between the concerned business and any covered employee, our Grievance Machinery Policy is in place to address and resolve these cases for timely investigation and resolution.

Full-time employees across our subsidiaries are entitled to all government-mandated benefits as well as but not limited to life insurance coverage, healthcare coverage, vacation and sick leaves, parental leaves, retirement provision, loan facilities, among others.

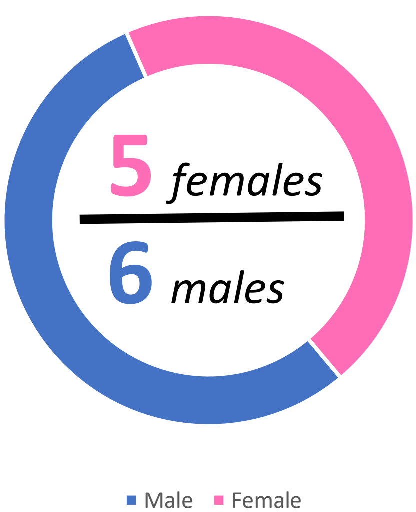
In November 2018, leveraging on its diverse and inclusive workforce, the Philippine National Bank (PNB) approved its Policy on Diversity and Inclusion to further foster innovation, create sustainable value and impact, and improve employee acquisition and retention. The Bank is also looking at its existing policies and is working to craft gender-responsive provisions that ensure gender equality and non-discrimination.

In May 2019, PNB became the first domestic universal bank to join the Philippine Business Coalition for Women Empowerment (PBCWE). As part of the membership, the Bank underwent the ***Economic Dividends for Gender Equality (EDGE) Certification*** *assessment in the 3rd quarter of 2019 in preparation for EDGE Certification set to be completed in 2020.*

We take particular pride in our gender equality and diversity and inclusion (D&I) practices where a significant number of women are in our governance bodies and senior management. The Board of Directors of LTG is comprised of five (5) women and six (6) men. Our combined workforce also shows a majority of women employees. Our robust practices also ensure that there is no difference between the basic salaries of men and women.

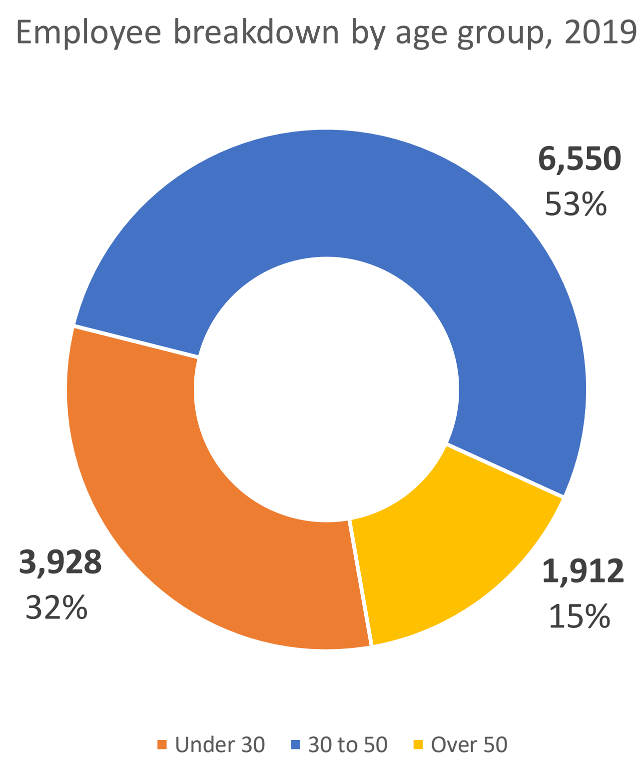
As of this reporting period, our workforce is at 12,390 regular employees where 6,601 people or 53% are females. We also have 360 contractual workers. Our employee turnover rate is at 9.27%. We hired 1,625 new employees of which 618 were females.

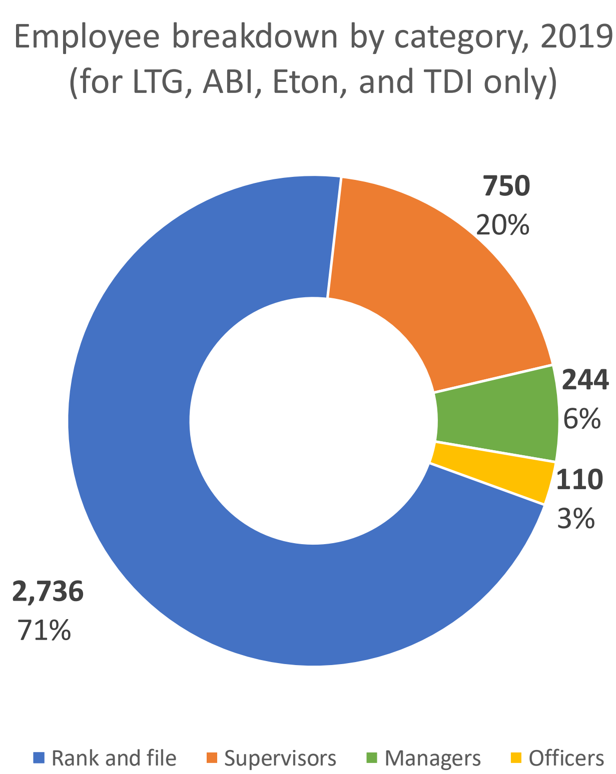
Composition of LTG Board of Directors, 2019

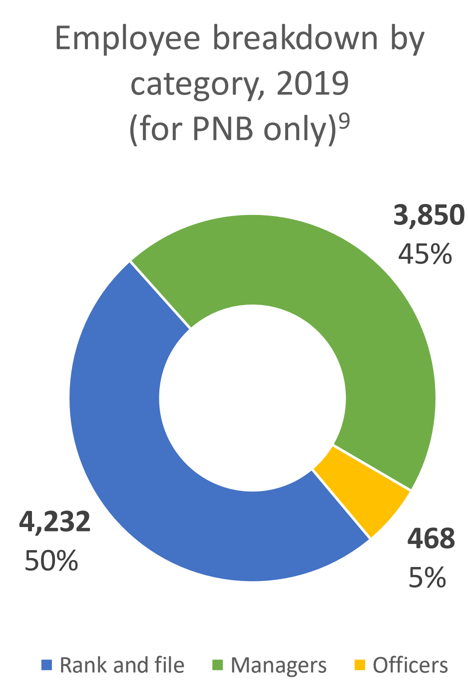


Total number of employees by employment contract, by gender, 2019			
Male		**Female**	
Permanent	*Temporary*	*Permanent*	*Temporary*
5,789	0	6,601	0
Total number of employees by employment type, by gender, 2019			
Male		**Female**	
Full-time	*Part-time*	*Full-time*	*Part-time*
5,789	0	6,601	0

Total number of employees by employment contract, by region, 2019		
Region	***Permanent***	***Temporary***
Luzon	9,580	0
Visayas	1,347	0
Mindanao	1,463	0

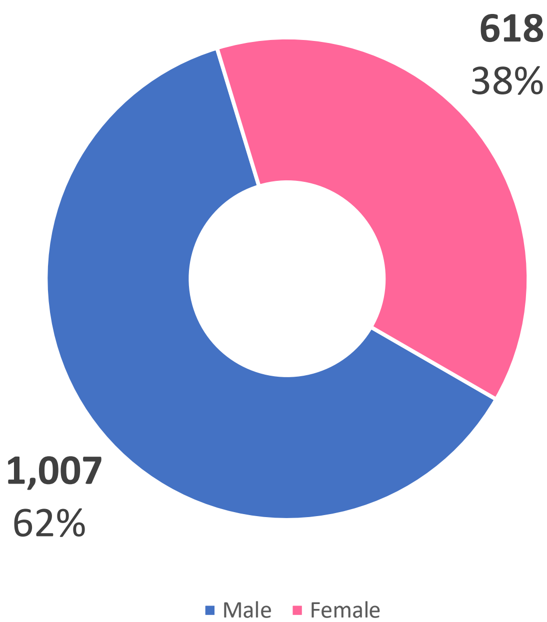




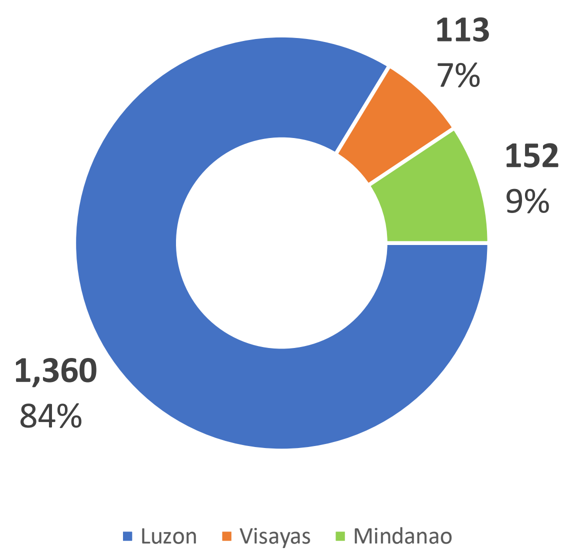


[9] PNB's employee breakdown by category has been separated from the Group-wide figures as PNB has no corresponding ranks for the Supervisor category.

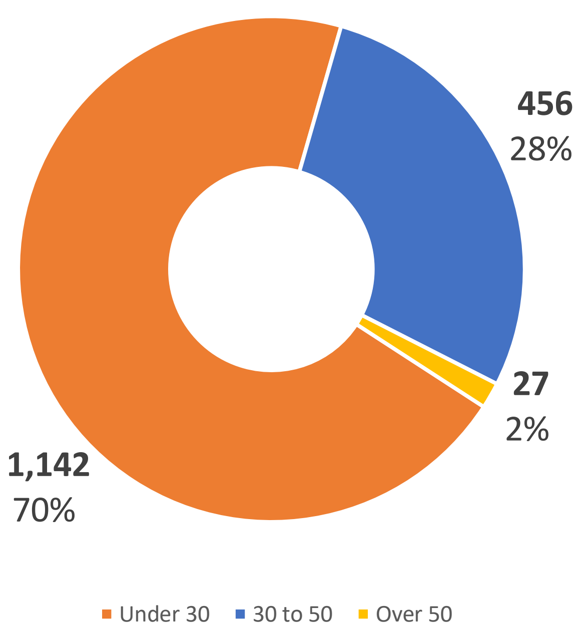
New hires by gender, 2019



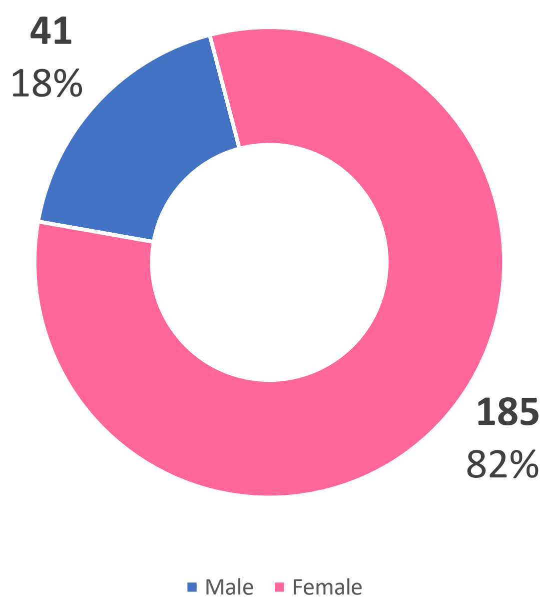
New hires by region, 2019



New hires by age group, 2019



Employees who took parental leave by gender, 2019



Return to work rate by gender, 2019		
	Male	***Female***
Employees due to return after parental leave	39	173
Employees that returned to work after parental leave	39	173
Return to Work Rate (%)	**100%**	**100%**

Retention rate by gender, 2019		
	Male	***Female***
Employees retained 12 months after returning to work following parental leave	16	166
Number of employees returning from parental leave in prior periods	16	166
Retention Rate (%)	**100%**	**100%**

Safety and Well-being

We recognize the great importance of our people's safety and well-being. A safe working environment is an important feature of our operations and we make sure we are able to provide this to our employees at all times.

Across the Group, we have an Occupational Safety and Health (OSH) Policy to safeguard our employees' right and access to humane working conditions. Our respective OSH committees and accredited Safety Officers help ensure strict implementation of this policy in accordance with our policies on good corporate governance and in compliance with the conditions set by DOLE. We also conduct regular reviews and evaluation of this policy to assess its effectiveness and to effect any changes if needed. The respective Committees regularly meet to manage work-related hazards, including investigation and incident reporting, which is guided by DOLE's guidelines on the Notification and Keeping of Records Accidents and/or Occupational Illnesses (Rule 1050, Occupational Safety and Standards, As Amended 1989, DOLE). Our employees across the Group are covered by a healthcare plan which include coverage for occupational health services.

We conduct regular training programs on occupational safety and health internally through our Safety Officers, health providers, government agency partners, and third-party providers. Apart from the DOLE-prescribed mandatory training hours for OSH, we conduct other trainings to further commitment to maintaining safety and health across all our operations. For example, at Eton's construction sites, we also conduct loss control management seminars, first-aid trainings, working at heights and scaffold safety trainings, and heavy equipment operation trainings, among others. This is on top of our annual trainings for OSH, Basic Occupational Safety and Health (BOSH), and Construction Occupational Safety and Health (COSH), a requirement for the construction industry. At TDI, our Safety Officers are required to conduct trainings on hazardous materials management, hot works operation, spill control, confined space safety and working at heights, and laboratory safety, among others. Group-wide, our businesses also respectively publish health bulletins regularly to promote sustained awareness among our employees.

At ABI, we implement the Hazard Identification, Risk Assessment and Determining Control (HIRADC) procedure, whereas Eton's sites and TDI implement the Hazard Identification, Risk Assessment and Control (HIRAC) procedure. These allow us to identify hazards and assess risks according to their likelihood and severity. After evaluation, we are able to determine and apply controls to manage these hazards and risks in the workplace.

As of 2019, we have zero instances among full-time employees of high-consequence work-related injuries[10] during the reporting period.

[10] A high-consequence work-related injury is a work-related injury that results in a fatality or in an injury from which the worker cannot, does not, or is not expected to recover fully to pre-injury health status within 6 months.

OHS Management System Coverage, 2019		
	No. of employees	*Percentage*
Covered by occupational health and safety management system		
Regular employees	11,906	100%
Contract workers	360	99%
Covered by occupational health and safety management system that has been internally audited		
Regular employees	11,491	97%
Contract workers	360	99%
Covered by occupational health and safety management system that has been audited or certified by an external party		
Regular employees	8,610	72%
Contract workers	0	0

Work-Related Injuries, 2019		
	Number of cases	*Rate*
For employees		
Fatalities as a result of work-related injuries	0	0
High-consequence work-related injuries (excluding fatalities)	0	0
Recordable work-related injuries	49	5.82
Number of hours worked (hours)	8,413,664	
For contract workers		
Fatalities as a result of work-related injury	0	0
High-consequence work-related injuries (excluding fatalities)	0	0
Recordable work-related injuries	15	5.49
Number of hours worked (hours)	2,730,632	

Customers

Our journey to creating value would not be complete without our customers. By listening to them, we are able to understand our businesses better and we are able to move forward and grow in unprecedented ways. We learn about the changing market, developing preferences, and new or recurring trends by listening to our customers. This way, we are able to improve the way we do business and create products and services that our customers need, many of which have become homegrown brands we can be truly proud of.

Over the years, our businesses have remained true to its promise of excellence. We strengthen our commitment and look to innovative ways to provide quality products and services and create new and better value for our customers.

Marketing and Labeling

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

The way a business communicates to its customers is an important aspect of doing business. Our Group ensures transparent and easily-accessible information about our products and services to help our customers arrive at a well-informed choice. Across the Group, we follow local and international standards and regulation on responsible marketing and labeling practices. We continue to look at better ways to improve our websites and other information channels for ease-of-access to our clients.

At ABI, our Manufacturing Change Control (MCC) document is a practical guide we follow when we introduce, manage, execute and implement changes in terms of raw materials used, packaging, operational activities, promotional activities, and product campaigns. The MCC, together with our New Product Development document and our Stock Aging Management document, enables us to cover different aspects of how we market and label our products to consumers at different stages. We ensure strict compliance with guidelines on information and labeling set by the Philippine Food and Drug Administration (FDA), as well as all requirements set by the Philippine Ad Standards Council (ASC), and the Department of Trade and Industry (DTI), which may include information on sourcing, content, safe use, and proper disposal.

At Eton, our Marketing team ensures that our materials are compliant with our branding guidelines and all applicable laws and regulation set by the Department of Human Settlements and Urban Development (DHSUD) [formerly Housing and Land Use Regulatory Board (HLURB)] and DTI, among others. We regularly conduct a review of branding guidelines to address and accommodate new trends in industry branding. Likewise, we ensure that our brand logos and product names are duly registered at the Philippine Intellectual Property Office (IPO).

At PNB, we observe strict compliance with the conditions set by the Bangko Sentral ng Pilipinas (BSP), as well as guidelines by the Philippine Deposit Insurance Corporation (PDIC), ASC, DTI, among others. All our marketing tools have undergone internal reviews and have the necessary permits from regulators. Our Social Media Framework is also in place to help us manage our reputational risk across our social media platforms.

At TDI, we are guided by our Brand Guidance Policy, created through research done by TDI on marketing standards practiced in the Philippines. Our Quality Policy guides our labeling practices where we follow a mandatory minimum standard for information on our labels, which include alcohol content, packing size, intended sale placement (whether domestic or export), manufacturing plant address, BIR assessment number, ingredient declaration, and product traceability, among others. When critical, we also include proper product storage conditions and mixing guides, as well as guidelines on disposal. We continuously monitor this under our Quality Management System, and in strict compliance with conditions set by regulatory bodies such as the ASC for our television and radio advertisements. Labels of products for local distribution conform to the guidelines of FDA, while labels for products meant for export are subject to labeling regulations of the importing country. All our products are evaluated and registered by the FDA with their corresponding Philippine Intellectual Property Office (IPO) registration. We conduct regular assessments and evaluations throughout the year as we continuously look for new and innovative ways to strengthen our presence in existing markets and heighten our appeal to emerging markets.

In 2019, due to our strict commitment to comply with laws and regulations on marketing and labeling, we have recorded zero incidents of non-compliance.

Customer Health and Safety

3 GOOD HEALTH AND WELL-BEING

6 CLEAN WATER AND SANITATION

Our customers' health and safety will always be a top priority for us. Across all our products and services, we make sure that our customers are protected and safe from toxins and hazards. We continuously look at ways to contribute to improving our customers' quality of life.

At ABI, our Food Safety and Quality Policy ensures that our products meet international standards on quality and safety as set by our Quality Management System and policies of the FDA, as well as the National Sanitation Foundation and the International Bottled Water Association. We continue to ensure that all our plants are certified, that there are zero cases of non-conformance to regular internal and external audit procedures, and that key performance indicators on quality and packaging are met.

At Eton, we look to building and developing properties that positively impact the way communities live and grow. We strictly meet and observe all conditions set out by regulation and secure all needed permits as required by local zoning laws, regulations set by the National Building Code of the Philippines, as well as policies of the DHSUD (formerly HLURB), the Bureau of Fire Protection (BFP), DENR, among others.

At TDI, our Quality Policy is in place to ensure that our products are not just of excellent quality but are free of any elements that could potentially be harmful to our customers. Within our Quality Management System, and in compliance with the policies of the FDA, we make sure that strict implementation of our Quality Policy is observed as well as efficient response and resolution to product complaints with our product complaints procedure, consumer response program and corrective action plan.

During the reporting period, we recorded zero incidents of non-compliance with regulations on customer health and safety. We strengthen our commitment to ensure customer health and safety at all times and aim to maintain zero cases in the next reporting period.

Customer Engagement and Satisfaction

The longevity of our businesses has always partly depended on how well we listen to our customers. By listening well, not only are we able to improve the way we work, but we are able to create better value. We consider customer engagement and satisfaction a top priority.

At ABI, as part of our Food Safety and Quality Policy, we regularly conduct a Customer Satisfaction Survey. Together with our Customer Complaint Report, we use these tools to understand how well we have done and to see which areas of improvement we need to work on based on customer feedback sent through our website, email, phone and social media profiles.

At Eton, our commitment to customer engagement and satisfaction is rooted in our mission and vision as well as our Code of Ethics. We work hard to ensure that we are able to address client concerns and meet client demands in an efficient and timely manner. Our Customer Support team handles all concerns coming from our existing clients, while our Property Management Group takes care of on-site concerns. Our Marketing team, on the other hand, handles all feedback received from our website and social media platforms from both existing and prospective clients.

At PNB, customer engagement and satisfaction is embedded across all client touchpoints—from account opening to administration and termination. Our dedicated Customer Experience Division handles all client concerns and complaints 24 hours a day, 7 days a week through various channels including our Customer Care Hotline, website, email, secure online messaging platforms and the private messaging function of our social media profiles. Our Customer Care Policy ensures that any complaints brought to our attention are acknowledged, processed and resolved in a timely manner. Consistent with our Data Privacy Policy, we also ensure proper documentation for these issues and complaints and report them to the concerned regulators for compliance.

At TDI, we regularly engage in relationship-building activities between our salesmen and our customers. We are also active on social media and conduct marketing promotion campaigns throughout the year. We conduct monthly and annual evaluations of our activities to look at ways to improve. For any complaints, our customers are able to reach us through our website, telephone, email and/or our social media profiles. Each bears a distinct code which will identify the plant batch, line and date of production to pinpoint source of any defective products.

Digital Transformation and Innovation

In today's information age, businesses are driven by change that allow them to grow and improve. We recognize the importance of digital transformation and innovation as we look to reach new heights in the way we do business.

Our businesses are currently looking at ways to continuously keep up with present trends in technology. At Eton, we have integrated innovation in our business as we continue to look at smart cities and the impact of smart home systems to our properties. We are also looking at plans to continue upgrading our Enterprise Resource Planning (ERP) system.

At PNB, we launched our Ecosystem Strategy in 2016, which is an end-to-end, sustainable value chain concept to provide customized banking solutions and other services, which include integrated cash management solutions, bills payment, and payroll services to parties in the value chain. Digital transformation is at the very core of this strategy as we innovate and find better solutions to working with our partners. To make banking accessible to everyone, we currently have 1,557 automatic teller machines (ATMs), and 81 cash accept machines (CAM) for 24-hour banking convenience.

At TDI, we are documenting business processes of our new ERP system, which automates and integrates the management of many business processes. Quarterly operational audits will be conducted to ensure that written policies and procedures are being followed.

Customer Data Privacy and Security

Keeping information safe and secure is a top priority for us. We look to new and innovative ways to keep data that we have and data entrusted to us safe and secure at all times. We comply with all applicable regulation and go beyond compliance in making sure that our data safekeeping capabilities are continuously updated.

Across the Group, we are guided by our Data Privacy Policy which provides a framework for processing personal data from an individual in compliance with local data privacy laws and professional standards, most notably the Philippine Data Privacy Act of 2012. Our respective Data Protection Officers ensure strict compliance and implementation of the policy as well as handling of inquiries and complaints related to data privacy and security.

At Eton, we have a Data Privacy Manual, which complements our Group-wide Data Privacy Policy. This manual is reviewed and evaluated annually for any changes and improvement needed. Our Data Protection Officers work closely with our Legal Department to ensure that all required documentation is obtained from our clients. We also make sure that our employees are compliant with existing conditions set by regulation.

At PNB, together with our Group-wide Data Privacy Policy, our Enterprise Data Privacy Policy reinforces our strong commitment to data privacy and security. This policy was developed based on the Philippine Data Privacy Act of 2012, the General Data Protection Regulation 2016/679 (GDPR) of the European Union (EU), ISO 27001:2013 for Information Security Management System and our Enterprise Information Security Policy, the Manual of Regulation for Banks (MORB) of the BSP, and publications and references issued by industry associations as the Information Systems Audit and Control Association (ISACA) and the International Association of Privacy Professionals (IAPP), among others. With our Data Privacy Management Division (DPMD), comprised of our Data Protection Officers and Data Protection Program Managers, we ensure firm compliance with both local and international regulations as well as international standards, including the compliance checklist of the National Privacy Commission and the six (6) data protection principles of the EU GPDR. Our DPMD also works with our Customer Experience Division for a quick and easy way to resolve any data privacy-related concerns directly coming from our customers. Within the Bank, all our personnel are bound by our confidentiality policy. We also regularly send out data privacy advisories to all personnel concerned regarding updates and trends on data privacy and security.

For 2019, we recorded three (3) incidents of inadvertent leakage of customer data, and four (4) incidents of non-compliance with rules and regulation on data privacy across the Group. These incidents, which were recorded at PNB, have all been addressed and immediately resolved in accordance with the Bank's Enterprise Information Security Policy and Enterprise Data Privacy Policy. We also regularly reiterate our Group-wide Data Privacy Policy for continued awareness. While the rest of our subsidiaries had zero cases of non-compliance with rules and regulation on data privacy, our commitment to ensuring data privacy and security remains strong to avoid similar incidents in the next reporting period.

Society

Community Relations and Initiatives

We consider the communities we operate in as our partners in value creation. From these communities, we are able to access a wealth of human and natural resources that contribute greatly to our success. We are committed to contributing back to the very communities that help us grow for their success is our success.

The Group's main corporate social responsibility (CSR) arm is the Tan Yan Kee Foundation, Inc. (TYKFI). Together with our partners, TYKFI pursues projects that focus on education, health services, social welfare and the environment.

In education, TYKFI maintains a number of scholarship and education activities. In partnership with the University of the East (UE), the UE-TYKFI Scholarship Program, an academic scholarship program for deserving UE undergraduates and faculty members, has 123 new and continuing scholars this year totaling to over 1,410 beneficiaries, including 18 faculty members and 103 grantees who have benefitted from the program in over 21 school years.

The TYKFI-STA Scholarship Program for Farmers' Children, which provides free private school education for deserving high school students from marginalized farming families, currently has 160 scholars from grades 7 to 12 in Sta. Teresita's Academy in Aritao, Nueva Vizcaya.

In partnership with the Foundation for Liberty and Prosperity (FLP), the TYKFI-FLP Legal Scholarship Program, a scholarship for selected junior and senior year law students who are at the top of their class, currently has 20 scholars across various law schools in the country.

TYKFI together with ABI has a Medical Specialty Scholarship Program that helps Filipino doctors finish specialty training abroad. Four (4) medical doctors completed their specialty training in 2019 with the help of the program: Dr. Andrei Paulo Angbue-Te, Dr. Noruel Gerard Salvador, Dr. Rosemarylin Or, and Dr. Giselle Gotamco.

Together with the Foundation for Upgrading the Standards of Education (FUSE), TYKFI sponsored the training of 133 teachers to update and upgrade their teaching skills across different subjects. The school supplies projects benefited 1,076 children while the food distribution project reached 1,179 children and teachers alike at the adopted schools. TYKFI also participated in Brigada Eskwela 2019 where Nagtenga Elementary School in Sta. Cruz, Ilocos Sur was provided with materials to help remodel three (3) old Marcos-type classrooms for kindergarten and second and third grade students. The Tan Yan Kee Library also conducted summer learning activities for children on Chinese literature, language and culture from May to July. From August to October, the library gathered a diverse group of 11 people aged 14 to 85 for its Chinese Ink Painting classes.

In health services, TYKFI continues to hold the monthly Asia Brewery Medical Forum in cooperation with the Association of Asia Brewery Medical Specialty Scholars. These forums provide the public with better health information as well as information on the latest treatment options. Some of the topics discussed in 2019 include eye conditions, gastrointestinal tract afflictions, common childhood diseases, kidney health and women's health. Doctors who are Asia Brewery Medical Scholars also provided free consultations during the forums. Meanwhile, TYKFI has partnered with LGUs and private medical specialists in extending free consultation to goiter patients.

In social welfare, TYKFI spearheaded a host of projects in partnership with sister companies as well as public and private organizations to help develop communities and improve their quality of life. It sponsored the training of seven (7) local government officials and six (6) teachers on good governance and solid waste management through a clean-up drive within a mangrove park in Boracay, Aklan. Aside from collecting almost 50 sacks of garbage, the participants also planted api-api, a local mangrove species in line with the *Roots for Boracay Project* in partnership with TDI, DENR and the local government of Barangay Manoc-Manoc.

TYKFI sponsored the skills enhancement training of 19 past trainees from farming communities in the towns of Kayapa and Sta. Fe, Nueva Vizcaya and Sta. Cruz, Ilocos Sur on basic cosmetology in partnership with Ang Hortaleza Foundation. 30 housewives were also trained in longanisa-making in the community of Las-Ud in Sta. Cruz, Ilocos Sur.

Together with Eton, TYKFI launched the Masaganang Palayan Project by donating high quality rice seeds and fertilizers to 18 farmers from Comon and Tabueng in Aritao, Nueva Vizcaya. Each of the farmers received an average of three (3) to five (5) sacks of hybrid rice seeds that can yield up to 100 to 110 *cavans* of high quality palay. Another project together with Eton is the TYKFI-Eton Joint Housing Assistance Project where four (4) newly-built houses were turned over to the families of four (4) scholars under the TYKFI-STA Scholarship Project

Together with TDI through Tanduay Athletics, TYKFI co-sponsored the Golden KAP Basketball Tournament, a grassroots sports development program participated in by community members from Aritao, Nueva Vizcaya and Carranglan, Nueva Ecija. The project was initiated to enable the youth to develop their skills in sports, instill the value of sportsmanship, and foster intercommunity goodwill and fellowship. Three (3) barangays from each of the two municipalities participated in the tournament with over 75 youth players.

In response to the aftermath of the earthquakes that displaced numerous families in Cotabato, TKYFI, together with Philippine Airlines, PNB and TDI, distributed *Chairman's Gift Boxes* filled with food and drinks to over 2,000 evacuees across five (5) evacuation camps in Makilala, Cotabato and Kidapawan City during the HOPE Caravan's disaster relief campaign.

TYKFI also helped PNB conduct a financial literacy seminar for 20 barangay treasurers from Aritao, Nueva Vizcaya.

In the protection of the environment, one of TYKFI's biggest undertakings is the Dr. Lucio C. Tan Legacy Forest Project. Started in 2014, over 787 hectares of the 930-hectare area for reforestation and protection in Barangay R.A. Padilla in Carranglan, Nueva Ecija have been planted with different varieties of timber, fuelwood, and fruit trees. Other planting and reforestation sites include the Laguna-Quezon Land Grant

(LQLG) of the University of the Philippines Los Baños (UPLB) and parts of Nueva Vizcaya, as well as the Mangrove Rehabilitation Projects in Ilocos Sur and Boracay.

Apart from rehabilitating the forests, TYKFI provided livelihood opportunities by giving jobs to the farmers and teaching them new scientific methods of producing vegetables, and organic and ornamental plants. TYKFI also conducted holistic development programs for the farm workers that include values formation, wellness promotion and spiritual development. At the 56-hectare planting site in Barangay Joson in Carranglan called Friendship Park, various developmental activities have been conducted like intercropping, ring weeding, fertilizer application, hedgerow establishment, and road gravelling. In April 2019, more than 150 students from UPLB visited the project's Nueva Ecija site and learned about the goals, experiences, and sustainability efforts of the project.

In September and October 2019, 19 farming students from the Don Bosco Training Center in San Jose, Nueva Ecija who are NC-II-certified also went to the TYKFI farm project site to undergo a 10-day immersion program under their Supervised In-Plant training.

Due to its successful efforts in reaching out to the community, TYKFI was conferred the 2019 Global NGO Leadership and Excellence Award due to its holistic commitment framework in doing CSR that works to leave no one behind.

At ABI, through our Asia Brewery Manufacturing Operations Resources & Environment Sustainability (AMORES) project, the flagship sustainability project of ABI, we continue to drive further our commitment to environmental and community stewardship. Together with WWF Philippines as our partner, we conducted the Education is Adaptation program to teach schoolchildren and teachers the environmental impact of waste and the importance of waste segregation. With this program, we were able to conduct one (1) teachers' training and three (3) information sessions with students of Molino Elementary School, Panipuan Elementary School, and Baliti Elementary School all in the province of Pampanga.

At PNB, our Corporate Social Responsibility Policy drives forward our commitment to incorporate and implement CSR and sustainability-related initiatives in our operations. With the creation of our new Corporate Sustainability Unit, we are currently developing our sustainability policy, roadmap and framework. Annually, we allocate at least two percent of our net income to various CSR activities as education programs on financial literacy, and scholarships, as well as livelihood development initiatives and environmental campaigns.

At TDI, we have partnered with Dualtech Training Center to train their students under the Technical Education and Skills Development Authority's dual training system. Lasting for 18 months, Dualtech students spend time training with us at TDI from Monday to Friday and attending classes and other activities at their school during Saturdays.

In 2019, 89% of our local operations have implemented community initiatives.

LTG's Unique Key Material Issue

Over time, our Group has grown and expanded to include businesses in different industries with different challenges. In our journey to sustainability, we recognize these unique challenges as opportunities for us to show our skill and capability in meeting these challenges head on and create long-term value for our stakeholders.

Illicit Trade

The presence of smuggled and/or counterfeit tobacco products, also known as illicit cigarettes, in the country has created considerable challenges to our operations in PMFTC. As illicit cigarettes evade paying government-mandated excise taxes and value added tax (VAT), the price gap between illicit cigarettes and legitimate cigarettes is widened resulting to low prices of illicits compared to our licit low-priced brands. These illicit cigarettes then become an attractive alternative for smokers, particularly the youth and low-income groups. The legislated annual increase of excise taxes on tobacco products further widen price gaps and make illicit cigarettes even more attractive. It is a major economic problem for governments. In the Philippines, the Intellectual Property Office of the Philippines (IPO) reported that in 2018 alone, around Php20 billion worth of illicit cigarettes and illicit cigarette-making paraphernalia were seized.

1000+

*participants to **63** engagements by PMFTC on raising awareness about the illegal cigarette trade problem*

At PMFTC, we work closely with other affiliates of Philip Morris International, Inc. (PMI) to share intelligence and resources to fight illicit trade guided by the objectives and the principles of the WHO Framework Convention on Tobacco Control (FCTC) Protocol to Eliminate Illicit Trade in Tobacco Products. We also regularly engage various internal and external stakeholders to raise awareness about the illegal cigarette trade problem, which includes capacity building activities on how to spot an illicit cigarette product. In 2019, PMFTC conducted 63 separate engagements with over 1,000 participants who are trade and law enforcement partners, and PMFTC employees.

PMFTC is part of a multisectoral movement called "Fight IT (Illicit Trade)" led by the Federation of Philippine Industries (FPI) to curb unfair trade and secure national revenues and protect legitimate players in the domestic market. The Fight IT movement is also supported by sectors, of which common issues are smuggling and illicit trade in their industries, including rice, sugar, corn, palm oil, tobacco, steel, cement and ceramic tiles. With its strengthened fight against illicit trade, Fight IT action plans include: (1) to intensify its public information drive against illicit trade; (2) to develop a regulatory and fiscal information campaign designed to increase the awareness of retailers on illicit trade; and (3) to advocate for laws and regulations to mitigate illicit trade and support industry investigators who will monitor the illegal tobacco trade for the purpose of pushing for enforcements.

As part of the global PMI group, we at PMFTC channel our efforts on illicit trade through the following:

1. Fighting the diversion of our products by continuously improving measures to secure the supply chain with all stakeholders;

2. Sharing our knowledge with the impacted parties through continuous research, analysis, and communication of illicit trade issues and consequences; and

3. Pre-empting attempts to illegally divert our smoke-free products by assessing potential risks and by equipping our organization for this new challenge.

For further information, please refer to the PMI 2018 Sustainability Report.

Appendix

GRI Content Index

GRI Standard	Disclosure		Page No.	Omissions
GRI 101: Foundation 2016 (GRI 101 does not include any disclosures)				
General Disclosures				
GRI 102: General Disclosures 2016	***Organizational Profile***			
	GRI 102 - 1	Name of the organization	9	-
	GRI 102 - 2	Activities, brands, products, and services	9-11	-
	GRI 102 - 3	Location of headquarters	9	-
	GRI 102 - 4	Location of operations	13-14	-
	GRI 102 - 5	Ownership and legal form	9-12	-
	GRI 102 - 6	Markets served	13-14	-
	GRI 102 - 7	Scale of the organization	13-14, 29, 39-41	-
	GRI 102 - 8	Information on employees and other workers	39-43	-
	GRI 102 - 9	Supply chain	17-18	-
	GRI 102 - 10	Significant changes to the organization and its supply chain	17-18	-
	GRI 102 - 11	Precautionary Principle or approach	30	-
	GRI 102 - 12	External initiatives	22	-
	GRI 102 - 13	Membership of associations	19-20	-
	Strategy			
	GRI 102 - 14	Statement from senior decision-maker	4-6	-
	Ethics and Integrity			
	GRI 102 - 16	Values, principles, standards, and norms of behavior	8, 15-16, 31	-
	GRI 102 - 17	Mechanisms for advice and concerns about ethics	31	-
	Governance			
	GRI 102 - 18	Governance structure	15-16	-

	GRI 102 - 22	Composition of the highest governance body and its committee	15-16	-
	GRI 102 - 23	Chair of the highest governance body	15-16	-
	GRI 102 - 26	Role of highest governance body in setting purpose, values, and strategy	8	-
	Stakeholder Engagement			
	GRI 102 - 40	List of stakeholder groups	22	-
	GRI 102 - 41	Collective bargaining agreements	39	-
	GRI 102 - 42	Identifying and selecting stakeholders	22	-
	GRI 102 - 43	Approach to stakeholder engagement	22	-
	GRI 102 - 44	Key topics and concerns raised	22	-
	Reporting Practice			
	GRI 102 - 45	Entities included in the consolidated financial statements	21, 29	-
	GRI 102 - 46	Defining report content and topic Boundaries	21-24	-
	GRI 102 – 47	List of material topics	25-27	-
	GRI 102 - 48	Restatements of information		Not applicable as this is the first year of reporting.
	GRI 102 - 49	Changes in reporting		Not applicable as this is the first year of reporting.
	GRI 102 - 50	Reporting period	21	
	GRI 102 - 51	Date of most recent report		Not applicable as this is our first sustainability report.
	GRI 102 - 52	Reporting cycle	21	-
	GRI 102 - 53	Contact point for questions regarding the report	22	-
	GRI 102 - 54	Claims of reporting in accordance with the GRI Standards	22	-
	GRI 102 - 55	GRI content index	56-62	-
	GRI 102 - 56	External assurance	21	-

Material Topics				
GRI 201: Economic Performance 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	21, 25, 29	-
	GRI 103 - 2	The management approach and its components	29	-
GRI 201: Economic Performance 2016	GRI 201 - 1	Direct economic value generated and distributed	29	-
GRI 419: Socioeconomic Compliance 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	25, 30	-
	GRI 103 - 2	The management approach and its components	30	-
	GRI 103 - 3	Evaluation of the management approach	30	-
GRI 419: Socioeconomic Compliance 2016	GRI 419 - 1	Non-compliance with laws and regulations in the social and economic area	30	-
Risk Management				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	25, 30-31	-
	GRI 103 - 2	The management approach and its components	30-31	-
	GRI 103 - 3	Evaluation of the management approach	30-31	-
GRI 102: General Disclosures 2016	GRI 102 - 11	Precautionary principle or approach	30	-
GRI 205: Anti-Corruption 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	25, 31	-
	GRI 103 - 2	The management approach and its components	31	-
	GRI 103 - 3	Evaluation of the management approach	31	-
GRI 205: Anti-Corruption 2016	GRI 205 - 2	Communication and training about anti-corruption policies and procedures	31	-
	GRI 205 - 3	Confirmed incidents of corruption and actions taken	31	-

GRI 303: Water and Effluents 2018				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 32-33	-
	GRI 103 - 2	The management approach and its components	32-33	-
	GRI 103 - 3	Evaluation of the management approach	32-33	-
GRI 303: Water and Effluents 2018	GRI 303 - 1	Interactions with water as a shared resource	32-33	-
	GRI 303 - 2	Management of water discharge-related impacts	32-33	-
	GRI 303 - 3	Water withdrawal	33	-
GRI 306: Effluents and Waste 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 34	-
	GRI 103 - 2	The management approach and its components	34	-
	GRI 103 - 3	Evaluation of the management approach	34	-
GRI 306: Effluents and Waste 2016	GRI 306 - 3	Waste by type and disposal method	34-35	-
GRI 302: Energy 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 35-37	-
	GRI 103 - 2	The management approach and its components	35-36	-
	GRI 103 - 3	Evaluation of the management approach	35-36	-
GRI 302: Energy 2016	GRI 302 - 1	Energy consumption within the organization	35-37	-
Climate Change				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 37-38	-
	GRI 103 - 2	The management approach and its components	37-38	-
	GRI 103 - 3	Evaluation of the management approach	37-38	-
GRI 201: Economic Performance 2016	GRI 201 - 2	Financial implications and other risks and opportunities due to climate change	37-38	-
GRI 401: Employment 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	25, 39-40	-
	GRI 103 - 2	The management approach and its components	39-40	-

	GRI 103 - 3	Evaluation of the management approach	39-40	-
GRI 401: Employment 2016	GRI 401 - 1	New employee hires and employee turnover	39, 42	-
	GRI 401 - 2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	40	-
	GRI 401 - 3	Parental leave	43	-
GRI 403: Occupational Health and Safety 2018				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 44	-
	GRI 103 - 2	The management approach and its components	44	-
	GRI 103 - 3	Evaluation of the management approach	44	-
GRI 403: Occupational Health and Safety 2018	GRI 403 - 1	Occupational health and safety management system	44	-
	GRI 403 - 2	Hazard identification, risk assessment, and incident investigation	44	-
	GRI 403 - 3	Occupational health services	44	-
	GRI 403 - 4	Worker participation, consultation, and communication on occupational health and safety	44	-
	GRI 403 - 5	Worker training on occupational health and safety	44	-
	GRI 403 - 6	Promotion of worker health	40, 44	-
	GRI 403 - 7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	44	-
	GRI 403 - 8	Workers covered by an occupational health and safety management system	45	-
	GRI 403 - 9	Work-related injuries	45	
GRI 417: Marketing and Labeling 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	25, 46-47	-
	GRI 103 - 2	The management approach and its components	46-47	-
	GRI 103 - 3	Evaluation of the management approach	46-47	-
	GRI 417 - 1	Requirements for product and service information and labeling	46-47	-

GRI 417: Marketing and Labeling 2016	GRI 417 - 2	Incidents of non-compliance concerning product and service information and labeling	47	-
	GRI 417 - 3	Incidents of non-compliance concerning marketing communications	47	-
GRI 416: Customer Health and Safety 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	25, 47	-
	GRI 103 - 2	The management approach and its components	47	-
	GRI 103 - 3	Evaluation of the management approach	47	-
GRI 416: Customer Health and Safety 2016	GRI 416 - 1	Assessment of the health and safety impacts of product and service categories	47	-
	GRI 416 - 2	Incidents of non-compliance concerning the health and safety impacts of products and services	47	-
Customer Engagement and Satisfaction				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 48	-
	GRI 103 - 2	The management approach and its components	48	-
	GRI 103 - 3	Evaluation of the management approach	48	-
GRI 102: General Standard Disclosures 2016	GRI 102 - 43	Approach to stakeholder engagement	22	-
	GRI 102 - 44	Key topics and concerns raised	22	-
Digital Transformation and Innovation				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 48-49	-
	GRI 103 - 2	The management approach and its components	48-49	-
GRI 418: Customer Privacy 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 49-50	-
	GRI 103 - 2	The management approach and its components	49-50	-
	GRI 103 - 3	Evaluation of the management approach	49	-
GRI 418: Customer Privacy 2016	GRI 418 - 1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	50	-

GRI 413: Local Communities 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 51-53	-
	GRI 103 - 2	The management approach and its components	51-53	-
GRI 413: Local Communities 2016	GRI 413 - 1	Operations with local community engagement, impact assessments, and development programs	51-53	-
	GRI 413 - 2	Operations with significant actual and potential negative impacts on local communities	51-53	-
Illicit Trade				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	26, 54-55	-
	GRI 103 - 2	The management approach and its components	54-55	-

Task Force on Climate-related Financial Disclosures (TCFD) Content Index

Recommended Disclosures		LTG SR Disclosure Content (Page No.)
Governance ***Disclose the organization's governance around climate-related risks and opportunities.***		
a)	**Describe the board's oversight of climate related risks and opportunities.**	15-16, 23
b)	**Describe management's role in assessing and managing climate-related risks and opportunities.**	15-16, 23
Strategy ***Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning where such information is material.***		
a)	**Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.**	Still being studied
b)	**Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.**	37-38
c)	**Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**	37-38
Risk Management ***Disclose how the organization identifies, assesses, and manages climate-related risks.***		
a)	**Describe the organization's processes for identifying and assessing climate-related risks.**	30-31
b)	**Describe the organization's processes for managing climate-related risks.**	30-31, 37-38
c)	**Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.**	30-31
Metrics and Targets ***Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.***		
a)	**Describe the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.**	30-31, 32-38
b)	**Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.**	35-37
c)	**Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.**	Processes are still to be set up for the future reporting of this metric