



LT GROUP, INC.

G A I N I N G M O M E N T U M



A N N U A L
R E P O R T
2 0 1 8



The LT Group Logo

Strength and solidarity. This is the essence of the LT Group (LTG) logo. The clean balance lines and curves are central elements -- 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 -- a symbolic consolidation of the subsidiaries and stakeholders within two circles, one for continuity, the outer one for solidarity.

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 its employees and the communities where it lives and works.

(The Vision and Mission Statements are reviewed and approved annually by the Board of Directors. The latest reviews were on January 16, 2018 and January 15, 2019.)

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OUR COVER

THE LT Group keeps moving toward greater and bigger goals. It is open to exploring new ideas, new markets and new partnerships. Such courage and perseverance have brought the conglomerate to where it is now -- visibly gaining momentum in achieving its vision to become a market leader in all its businesses.

The stylized arrow moving from left to right is a reflection of LT Group's focus toward its goals. The white subtle streaks parallel to it are graphic representations of LTG's agility to gain momentum and to adapt to changes and challenges it faces along the way.

The bright pastel yellow represents optimism and the success of the conglomerate in overcoming different issues and changes in the environment.

To convey that all five subsidiaries are gaining momentum and all moving in the same direction as well, they have been arranged to form a straight horizontal line that goes along and compliments the stylized arrowhead.

This is the DNA that the conglomerate is made of -- focused yet agile, optimistic despite the challenges, strong and positive but most importantly, committed to building a better Filipino nation for all.

THE LT GROUP



ASIA BREWERY, INC.

ETON PROPERTIES PHILIPPINES, INC.

PMFTC INC.

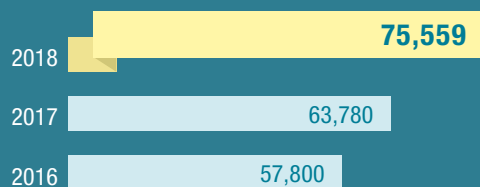
PHILIPPINE NATIONAL BANK

TANDUAY DISTILLERS, INC.

FINANCIAL SUMMARY

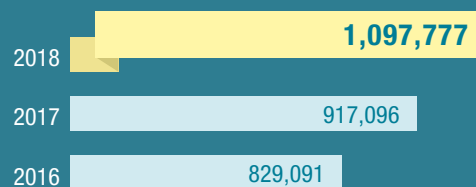
REVENUES

(in Php Millions)



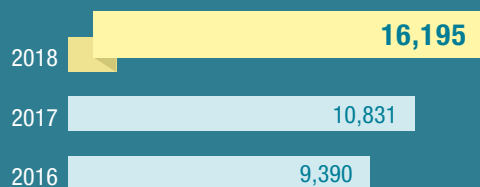
Total Assets

(in Php Millions)



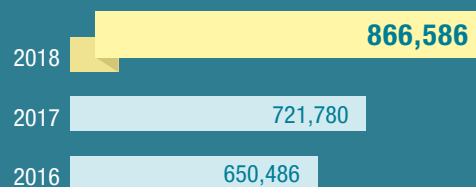
Net Income Attributable to Equity Holders of LTG

(in Php Millions)



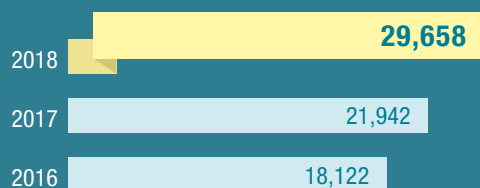
Total Liabilities

(in Php Millions)



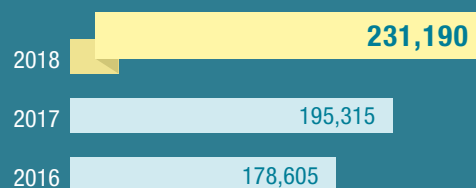
EBITDA

(in Php Millions)



Total Equity

(in Php Millions)



Per Share Data

(in Php Millions)

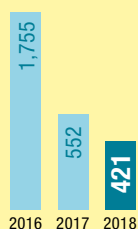
	2016	2017	2018
Earnings per Share	0.87	1.00	1.50
Book Value (at year end)	12.58	13.71	15.98
Cash Dividend	0.15	0.18	0.20
Pay-out Rate	24.60%	20.74%	19.98%

Ratio

	2016	2017	2018
Current (x)	0.70	0.62	0.61
Current w/o PNB (x)	4.20	4.39	4.03
Debt to Equity (x)	3.64	3.70	3.75
Debt to Equity w/o PNB (x)	0.15	0.15	0.14
Return on Average Assets	1.2%	1.2%	1.6%
Return on Average Equity	7.1%	7.6%	10.1%

OUR BUSINESSES AT A GLANCE

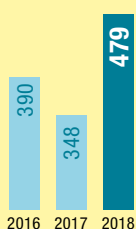
Net Income (in Php Millions)



99.9% Ownership

Asia Brewery, Inc. started as a brewery in 1982. It offers non-alcoholic beverages as well as packaging materials. It is a market leader in the energy drinks and soymilk categories. It is ranked second in the bottled water segment. Its alcoholic beverages, namely beer and alcopop, were spun off into AB Heineken Philippines Inc. in 2016.

Net Income (in Php Millions)

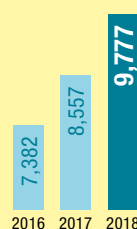


Eton Properties Philippines, Inc.

99.6% Ownership

Eton Properties Philippines, Inc. is the real estate arm of the group. It has a diversified portfolio of residential subdivisions, high-rise and mid-rise condominiums, BPO office buildings and commercial centers.

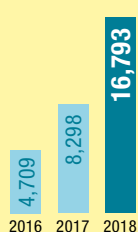
Net Income (in Php Millions)



56.47% Ownership

Philippine National Bank is one of the largest private universal banks in the country.

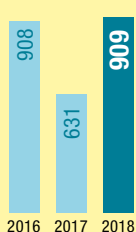
Net Income (in Php Millions)



49.6% Ownership

PMFTC Inc. is the business combination of Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corp. It is the leading cigarette manufacturer in the Philippines.

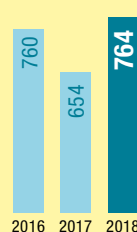
Net Income (in Php Millions)



100.0% Ownership

Tanduay Distillers, Inc. has a 99% market share of rum in the Philippines and 27% market share of the distilled spirits industry in 2018. It is the world's number one rum in terms of volume. In 2016, Tanduay started selling ethanol to fuel companies.

Net Income (in Php Millions)



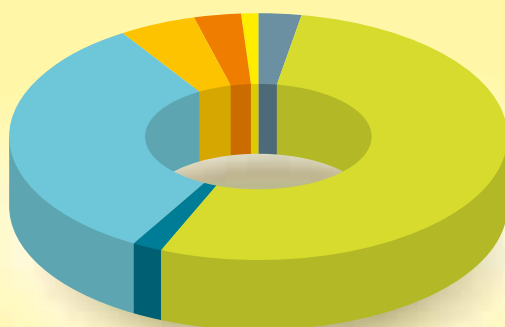
30.9% Ownership

Victorias Milling Company, Inc. is one of the country's largest sugar refineries, based in Negros Occidental. In crop year 2017-2018, it milled 2.95 million tons of cane and produced 4.62 million 50-kilogram bags of refined sugar.

Note: For the crop years September to August

Attributable Net Income Contribution to LTG

(in Php Millions)



2018

		% to total
TOBACCO	8,716	54%
BANKING	5,468	33%
DISTILLED SPIRITS	890	5%
PROPERTY DEVELOPMENT	479	3%
BEVERAGE	421	3%
VMC	247	2%
OTHERS	(26)	0%
TOTAL	16,195	100%

2017



		% to total
TOBACCO	4,385	40%
BANKING	4,826	45%
DISTILLED SPIRITS	631	6%
PROPERTY DEVELOPMENT	348	3%
BEVERAGE	551	5%
VMC	174	2%
OTHERS	(84)	-1%
TOTAL	10,831	100%

2016



		% to total
TOBACCO	2,582	27%
BANKING	4,140	44%
DISTILLED SPIRITS	908	10%
PROPERTY DEVELOPMENT	388	4%
BEVERAGE	1,753	19%
VMC	142	2%
OTHERS	(523)	-6%
TOTAL	9,390	100%



OUR PARTNERSHIPS



AB Pascual Holdings Pte. Ltd. is a 50-50 joint venture between Asia Brewery, Inc. and Corporacion Empresarial Pascual of Spain of Spain.

Currently, the Company imports yogurt from Spain and distributes it in the Philippine market under the Pascual Creamy Delight Brand. Different variants cater to a wide array of customers, from Original, Non-fat, Thick and Creamy to Greek Style. As of end 2018, Pascual Yogurt has a market share of 35%, based on AC Nielsen estimates and internal data.

Pascual Yogurt remains to be a revolutionary product because of its long shelf-life which does not require refrigeration. It is made from high quality ingredients -- real fresh cow's milk and real fruits and it comes at an affordable price.

The direction for the coming years is to build a robust dairy portfolio that continues to offer high quality, healthy and affordable products for Filipinos.



AB Heineken Philippines, Inc. (ABHP) is a 50%-50% joint venture between Asia Brewery, Inc. and the globally-renowned Dutch brewer, Heineken International B.V. This joint venture officially commenced operations in November 2016. Armed with Asia Brewery's local knowledge and distribution network as well as with Heineken's brewing and marketing expertise, ABHP continues to deliver quality beer brands and an exceptional experience for its customers.

ABHP's portfolio combines internationally acclaimed brands such as Heineken and Tiger with local brands such as Beer Na Beer, Colt 45 and Tanduay Ice.

ABHP operates two breweries -- one in Cabuyao, Laguna and another in El Salvador, Misamis Oriental. Significant investments in infrastructure and equipment have been made in the last three years, giving ABHP the capacity and capability to brew beers in the Philippines against the highest international quality standards.



ALI Eton Development Corporation

The Company is a 50%-50% joint venture between Ayala Land, Inc. and LT Group, Inc. It was formed to develop a 35-hectare property along the C-5 corridor that spans portions of Pasig City and Quezon City into a mixed-use estate.

The project, called Parklinks is envisioned to be the greenest urban estate in Metro Manila, with 50% of the area devoted to open spaces. A 110-meter long iconic bridge will link Pasig and Quezon City over the Marikina River, creating a new route to help ease vehicular traffic in the northeast and east of Metro Manila. The ground breaking ceremony was held in January 2018, while the bridge will begin construction in 2Q19 and targeted for completion by end-2020.

The first phase will cover 16 hectares. It will have a mall with 58,000 square meters which is targeted to open in 2022. Five towers of residential buildings under the Ayala Land Premier brand will be launched in the next five years, while another five towers will be under the Alveo brand, creating a portfolio of over 5,000 units. The first residential building, Parklinks North Tower, was launched in November 2018.



Allianz PNB Life Insurance, Inc. is a joint venture between global insurance leader Allianz SE, and local banking giant, the Philippine National Bank (PNB). In 2016, Allianz SE acquired 51% of PNB Life, the life insurance arm of PNB. The JV included a 15-year exclusive bancassurance agreement where products of Allianz PNB Life are to be exclusively sold in the bank's over 700 branch network nationwide.

With a diverse product portfolio, Allianz PNB Life offers insurance and investment solutions that address the different financial needs of young & growing, and middle established families; and high net worth individuals, as well as millennials. These products are made available to PNB customers by Financial Advisors stationed in PNB branches. Its bancassurance partnership with PNB remains to be the major source of business.

Since it launched its agency sales channel, the company has already on-boarded more than 1,000 agents, widening the Company's footprint to reach more Filipino families nationwide.

On the back of Filipinos' rising incomes, the Company successfully introduced new propositions. It launched AZpire, a regular pay unit-linked life insurance plan which focuses on faster fund accumulation for investment needs. The product series is aimed at millennials, most of which are in the early stages of building their professional careers and starting their own families.

Entering the health space, two new international health products were introduced in the market: Allianz Well! and Allianz Compass. These health offerings are meant to redefine the insurer's role from being just an insurance payer to being an engaged customer provider with value-added wellness and lifestyle services and benefits.

The Company has embarked on strengthening its digital capabilities meant to provide a better customer and distributor experience through e-applications, e-policies, e-notices, and e-learning.

Outside the business, Allianz PNB Life earned a Silver Award for 'Best CSR Sport Initiative' at the fourth edition of Asia's leading sports conference and awards platform, SPIA Asia - Asia's Sports Industry Awards & Conference. 'Allianz National Youth Futsal Invitational: #footballgoals' was the winning entry focused on bringing the love for football to the Philippines through the Allianz National Youth Futsal Invitational Tournament (ANYFI).



PMFTC Inc. (PMFTC) is the business combination between Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corporation, a 99.6%-owned subsidiary of LT Group, Inc. It continues to be the leading cigarette manufacturer in the Philippines, with a market share of 69.9% in 2018. PMFTC manufactures 9 out of the top 15 brands available in the market today led by Marlboro, the world's number one cigarette brand, and Fortune, the largest heritage home-grown brand in the Philippines.

In 2018, the total area for tobacco plantation was about 800 hectares that produced 1,000 metric tons of cured tobaccos. The lower volume is driven by the field team's shifted focus from recruitment and transplanting, to quality improvement, farm yield improvement and increased farmers' profitability. These factors will help sustain tobacco farming going forward and will drive tobacco production. Thus, despite the volume downtrend, there has been improvement in quality due to curing efforts and farmer adherence to our recommended farming practices.

The plantation in Claveria in the province of Misamis Oriental is also committed to continuously contribute to our Sustainability goals through several projects focusing on environment sustainability (biomass), child labor elimination on tobacco fields (off-farm activities for children and skills training for adolescents) and increasing farmer

profitability (mechanization and irrigation), amongst others. In fact, the latest assessment of Control Union (a global independent assessor) on Agricultural Labor Practices' compliance reported a zero child labor incident within our tobacco growing areas which is a good indication of the effectiveness of our child labor prevention initiatives. On our efforts to increase farmers profitability, several mechanization equipment, such as tractors, tillers, etc. used in land preparation, transplanting and other key field activities have been deployed to farmers with a total year to date coverage of approximately 400 hectares. Irrigation support, through deployment of sprinkler units, was also started during this year and is expected to increase the coverage to up to 300 hectares by 2019.





“Our positive result was no accident, nor was it achieved overnight. It was the product of years of planning, careful execution and hard work.”

–Dr. Lucio C. Tan

Dear Fellow Shareholders,

'Gaining Momentum' is the theme of our 2018 Annual Report. It is an apt description of our Group's performance the past year: profits reached Php16 billion – 50% more than the previous year – while our Companies and products continue to lead in their respective sectors.

Our positive result was no accident, nor was it achieved overnight. It was the product of years of planning, careful execution and hard work. Building on the gains of previous years, our management team worked hard to increase revenue streams and enhance shareholder value despite the difficult competitive environment. We thank them for a job well done.

We are also grateful to our employees, partners and customers for their loyalty and patronage. Our Company's growth would not have been possible without their continuing support.

As we move to another year, we're facing new and more difficult challenges. Higher tax rates on tobacco, one of our key products, are again looming on the horizon. This, while our volumes have barely recovered from the previous round of tax increases. Fortunately, Government has been more proactive as partners in curbing illicit trade. If not stopped, smuggling and counterfeiting will pose serious threats to legitimate producers and, consequently, to the Government's tax collection.

While 2018 was a good year, the challenge now, and for the

coming years, is how to sustain our momentum. Thus, our management team needs to exert more effort to match, if not surpass, this year's gains. Such task is not easy, but with hard work and perseverance, nothing is impossible.

As we go about our daily business, let us not forget that we have a responsibility to our community and the less fortunate. Today, and in years past, Tan Yan Kee Foundation, Inc. and our various Companies have been investing time and resources for projects that help uplift the lives of Filipinos. We will continue those noble endeavors.

In closing, I would like to thank our shareholders and our Company's Board of Directors, for helping me steer our Company toward a better future. Together, we shall make a difference while striving to gain more momentum in the years to come.



Dr. Lucio C. Tan

Chairman and Chief Executive Officer



MESSAGE FROM THE PRESIDENT



Our country's economy continued its growth trajectory in 2018, with Gross Domestic Product (GDP) expanding by 6.2%, although slower than 2017's 6.7% growth.

In 2018, consumers had to cope with higher prices as inflation averaged 5.2% compared to 2017's 2.9%. Inflation reached a peak of 6.7% in September and October before it started decelerating in November. Higher inflation was primarily brought about by higher food prices, specifically rice, and higher oil prices. Consumer spending remained healthy with Household Consumption and Expenditure rising by 5.6%, supported by the 3.1% growth in OFW remittances and the over 1.2 million employees of the Information Technology-Business Process Outsourcing (IT-BPO) industry.

For LT Group, Inc. (LTG), 2018 was a milestone, with earnings reaching an all-time high of Php16.19 billion primarily because our share of earnings from the tobacco business has gone back to historical levels as the current Government's actions

versus the illicit trade has enabled us to operate in a level playing field again. The Philippines' strong economy continued to support the demand for our different products and services.

It has been an eventful journey since we put together LTG in 2012. In 2013, we had the public offering early in the year and started grappling with unfair competition from the illicit trade in tobacco as Republic Act (RA) 10351 that significantly raised excise taxes, was implemented.

From our share of close to Php7 billion from the tobacco business in 2012, we struggled with the unfavorable environment, exacerbated by government inaction. Illicit products were sold at prices that were even below tax and as we matched these prices, we even booked losses in the second half of 2014. We were finally able to get relief with the current administration's clampdown on the illicit trade in 2017.

PMFTC Inc. (PMFTC) is now operating in a level playing field. Company is able to pass on excise tax increases.

Equity in Net Earnings
from PMFTC

Php 8.46 billion

+94%
y-o-y

The total volume of the local cigarette industry has been declining since the implementation of RA 10351 and the current RA 10963 starting 2018. From a low of Php2.72 per pack of 20 sticks in 2012 for the lower tier and Php12 per pack for the upper tier, the excise tax is currently at Php35 per pack, or about 3x to 13x more in a span of only seven

years. This resulted in higher selling prices, which has adversely affected volume. The industry's volume, which was estimated at 109 billion sticks in 2012, has declined to an estimated 73 billion sticks in 2018, or a decrease of 33% over a six-year period.

For PMFTC, its sales volume has also declined with the substantial increase in excise taxes, exacerbated by the illicit trade which thrived from 2013 until the Government took drastic actions in 2017. From 92.7 billion sticks in 2012, the Company's volume has declined 45% over a six-year period.

We commend the Government for its efforts against the illicit trade which includes smuggled and locally produced products, and for taking this problem seriously. The number of raids by the Government has been increasing and has been effective in curbing the presence of illicit products in the market. However, continued actions and vigilance are needed in order to contain the growth of the illicit trade. The tax-driven price increases make it attractive to make profits from the illicit trade.

With the Government keeping the illicit trade in check, PMFTC is currently operating in a level playing field, is able to pass on taxes, and no longer prices its products at economically unsustainable levels.

The change in our sales mix, in favor of premium Marlboro, has also helped improve profitability. Marlboro now accounts for 48% of our volume from 21% in 2013, as excise-tax driven price increases have narrowed the gap with lower-end brands, coupled with successful campaigns with retail activation initiatives that encourage legal age smokers to shift to Marlboro.

LTG's equity in net earnings from PMFTC amounted to Php8.46 billion in 2018 compared to Php4.37 billion in 2017.

Philippine National Bank's (PNB) core income boosted by ROPA sales; new management to bring bank to new heights.

PNB's net income under the pooling method was Php9.78 billion for 2018, 14% higher than 2017's Php8.56 billion. Both years included gains from the sale of foreclosed assets, at Php3.85 billion, net of taxes, in 2018 and Php2.71 billion in 2017. Excluding these gains, the Bank's income was at Php5.93 billion in 2018, compared to 2017's Php5.85 billion.

Net Interest Income increased 23% on the back of a 16% loans growth and slight improvement in Net Interest Margin. Net Service Fees grew 9% year-on-year (y-o-y). However, trading gains dropped by half, while operating expenses, excluding those related to the sale of foreclosed assets, increased by 16%.

A new president was named for PNB in mid-November 2018. He is expected to push the Bank to be more competitive and toward higher profitability.

Tanduay Distillers, Inc.'s (TDI) bioethanol sales rebounded, Tanduay is now the world's number one rum.

TDI's net income for 2018 amounted to Php909 million, 44% more than the Php631 million reported for 2017.

Total revenues were 8% higher as liquor revenues grew 7% with a 3% volume growth and higher selling prices, while revenues from bioethanol were 21% higher as volume increased 18%.

TDI's nationwide market share for distilled spirits was at 27.3% as of December 2018, higher than end-2017's 24.8%, while continuing to enjoy a higher share in the Visayas and Mindanao regions at 63.6% and

16%
Loan Growth,
NIM Improved to
3.2%

Bioethanol Sales
18%
Volume Growth



MESSAGE FROM THE PRESIDENT

69.1%, respectively as of end-2018.

During the year, Tanduay was named the world's number one rum in terms of sales volume by the Drinks International, based on 2017 figures.

TDI launched Embassy Whiskey aimed at catering to the younger, more affluent customers. The Company aims to make it the drink of choice of young professionals.

Revenues
+43%
y-o-y

Sale of ready-for-occupancy residential units of Eton Properties Philippines, Inc. (Eton) boosted earnings.

Eton ended the year with a net income of Php479 million, 38% higher than the Php348 million recorded in 2017. Revenues grew 43% y-o-y as sales from residential units increased by 102% while leasing revenues were 8% more at Php1.50 billion.

During the year, the Company continued with the construction of various projects that will increase its office and retail leasing portfolios. These are pocket retail Eton Square Ortigas and office building NXTower in Ortigas; the office and retail components of Eton WestEnd Square in Makati; office building Cyberpod Five in Eton Centris, Quezon City; and the retail component of Eton City Square in Eton City, Sta. Rosa, Laguna.

Asia Brewery, Inc. (ABI) results were mixed. The new sugar tax adversely affected volume of Cobra Energy Drink, while demand for bottled water and soymilk remained robust. Investment spending continued to weigh down the Heineken JV.

ABI's net income for 2018 was at Php421 million. This is a decrease of 24% compared to the Php552 million reported for 2017, as lower

sales volume of Cobra Energy Drink and marketing expenses for beer weighed down on earnings.

Revenues were 9% higher versus the previous year given the higher volumes from packaging, bottled water and soymilk. The volume of our energy drink was lower as demand was affected by the sugar tax that the Government started imposing on sugary drinks in 2018.

A better 2019 ahead, but will not be an easy task.

LTG is **gaining momentum** as we look toward the future. We are reaping the benefits of our hard work in the past and we expect the same from the investments that we are currently nurturing. In 2016, we forged new partnerships for a township development as well as for the beer and life insurance businesses. We continue to expand our partnership in the dairy business, while increasing the capacities of our other businesses and introducing new products.

But it will not be easy. We are operating in an even more competitive environment, with persistent challenges to the dominant positions we hold in our different products. The Government wants to increase further the excise tax for both tobacco products and alcoholic beverages. If passed into law, higher taxes would adversely affect volumes as these would translate to higher selling prices. The delay in the passing of the 2019 National Budget may slow down infrastructure spending which is helping provide jobs and more disposable income to consumers.

The tobacco business will remain as the main source of LTG's earnings. PMFTC will continue to be vigilant in the fight against the illicit trade and continue to work with Government. We are not against tax increases,

Revenues
+9%
y-o-y

but we believe that the hikes should be moderate. Continual price increases to pass on higher excise taxes may result in a further drop in industry volumes.

For PNB, we look forward to the Bank growing its core income as a new era starts with the new President. In the past three years, substantial gains from the sale of foreclosed assets propped up earnings, and before that it was trading income. Going forward, we expect the Bank to realize higher returns, create value for LTG, as well as contribute a bigger share to LTG's earnings.


TDI's liquor sales will be affected if excise taxes are substantially increased. Its earnings will be augmented with bioethanol sales as the Company continues to take advantage of the Biofuels Law and molasses prices remain competitive.

Eton should be able to continue its growth momentum as more space is added to its leasing portfolio with the completion of its pipeline of projects. Its office buildings should continue to enjoy high occupancy rates as the Philippine IT-BPO industry grows despite the uncertainties from a possible change in tax incentives and the threat of artificial intelligence as the country's IT-BPO employees continue to move up the value chain.

For ABI, we expect the demand for Cobra to stabilize as there is no further increase in the tax on sugary drinks. The expansion of the bottled water facilities will come on stream and support the healthy growth of this segment. We hope to see positive results from our recent investments in our beer joint venture and contribution from our soymilk plant as most of the imported supply will now be produced locally.

In closing, I would like to thank our stakeholders for the continued support and trust in your Company and our Board of Directors,

management team and all our employees for their dedication and hard work. You have been with us through difficult and better times.



Michael G. Tan

President and Chief Operating Officer



MESSAGE FROM THE CFO



For the year 2018, LT Group, Inc.'s (LTG) total revenues amounted to Php75.56 billion, an increase of Php11.84 billion or 18.6% over 2017's Php63.72 billion revenues. All business segments reported an increase in revenues over the previous year.

Philippine National Bank (PNB) had the highest increase in revenues, followed by Asia Brewery, Inc. (ABI), Tanduay Distillers, Inc. (TDI) and Eton Properties Philippines, Inc. (Eton). Higher Interest Income, sales of real and other property acquired (ROPA) and transaction fees all contributed to PNB's growth in revenues, while higher liquor and

bioethanol sales improved TDI's revenues. ABI's revenues were driven by the higher contribution of its bottled water, packaging and soymilk products. Eton's revenues were higher on the combined contribution of its residential and leasing businesses.

The attributable net income of LTG reached Php16.19 billion, Php5.36 billion or 49.5% more than 2017's Php10.83 billion. All business segments except for the beverage business posted higher net income in 2018.

The tobacco business contributed 54% while PNB accounted for 33% of LTG's attributable income in 2018. TDI added 5%, Eton 3% and 3% came from ABI. Equity in net earnings from 30.9%-owned Victorias Milling Company, Inc. (VMC) amounted to Php247 million, or 2% of total attributable income.

The contribution of the tobacco business reached Php8.75 billion, a Php4.35 billion or 98.8% improvement over 2017's Php4.40 billion. The tobacco business' income is primarily from the equity in net earnings of its 49.6% stake in PMFTC, Inc. (PMFTC). This amounted to Php8.46 billion in 2018, a Php4.10 billion or 93.8% increase compared to 2017's Php4.37 billion, mainly due to favorable sales mix and higher prices. 2018 marks the first full year that the tobacco business has recovered from rampant illicit trade and uneconomical prices. The segment experienced its record low earnings in 2014 and we credit the Philippine Government in its efforts against these informal businesses.

PNB's contribution amounted to Php5.47 billion in 2018. Earnings from the Bank's core businesses were generally flat year-on-year, despite improvement in core revenues as operating expenses increased. Gains from ROPA

provided additional lift to neutral earnings. This brought PNB's net contribution to LTG in 2018 higher by Php593 million or 12.3% compared to 2017.

TDI's contribution was Php890 million, Php259 million or 41.0% higher than 2017's Php631 million. Both liquor and bioethanol segments led to an improvement in Tanduay's bottom line in 2018.

Eton's contribution amounted to Php479 million, Php131 million or 37.6% higher than the previous year's Php348 million with improved profitability in its residential sales business and leasing segments.

ABI contributed Php421 million to LTG, Php130 million or 23.6% lower than 2017. ABI's 2018 income was weighed down by higher costs for fuel, electricity and packaging, as well as marketing spending by AB Heineken Philippines, Inc. as the subsidiary continues to heavily invest in the local market.

On April 11, 2018, LTG paid a regular cash dividend of Php0.15 per share and a special cash dividend of Php0.05 per share, or a total of Php2.16 billion to shareholders on record as of March 28. This is equivalent to 19.98% of 2017's attributable income of Php10.83 billion, in line with its dividend policy of a 20% pay-out rate.

Total capital expenditure was Php10.9 billion in 2018. PNB invested Php3.85 billion, primarily for its Retail Banking arm. ABI spent Php1.32 billion, mostly on the capacity expansion of its bottled water business. Eton spent Php2.39 billion, mainly for the construction of ongoing projects. TDI spent around Php661 million, largely for plant upgrades. Meanwhile, LTG invested close to Php1.8 billion to its joint venture with Ayala Land, Inc. for the

35-hectare Parklinks project. LTG further infused Php900 million into Asia's Emerging Dragon Corporation, the vehicle for its participation in the Ninoy Aquino International Airport rehabilitation project.

LTG's balance sheet remains strong, with the parent company's cash balance at Php1.5 billion as of the end of 2018. Debt-to-Equity Ratio was at 3.75:1 with the Bank, and at 0.14:1 without the Bank.



Jose Gabriel D. Olives
Chief Financial Officer

Asia Brewery, Inc.

From its humble vision to be a second brewery in the Philippines, Asia Brewery, Inc. (ABI) is now one of the most diversified beverage companies in the country producing the top-selling non-alcoholic brands: Cobra (#1 energy drink), Vitamilk (#1 soymilk), and trusted bottled water brands, Absolute and Summit. It is also one of the major players in the industrial packaging industry, producing glass container requirements for major beverage and condiments manufacturers in the country.

The year 2018 presented major challenges for the Philippine beverage industry as it marked the first time that an excise tax was imposed on sweetened beverages under R.A. 10963 otherwise known as the Tax Reform for Acceleration and Inclusion (TRAIN) Law. The law imposed a Php6 per liter specific tax on beverages containing caloric and non-caloric sweeteners and a Php12 per liter specific tax on those containing high-fructose corn syrup, while exempting

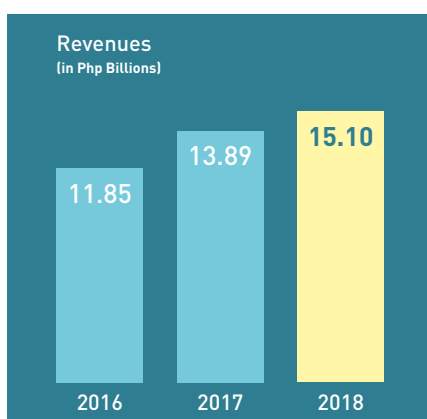
milk and dairy-based products, including soymilk and yogurt, and coffee mixes, among others. Despite the expected positive impact of the TRAIN Law on disposable income, this resulted in a 14% industry-wide volume decline in the non-alcoholic beverage market, as manufacturers passed on the tax to consumers.



Backed by strong brands, a wide portfolio across the different categories in the beverage industry and coupled with well-timed expansion in key growth areas, ABI was able to surpass the challenges and capitalize on opportunities brought about by the TRAIN Law. While Cobra volumes declined by 14%, the full excise tax pass-on supported the increase in revenues and

tempered the impact on margins. Meanwhile, tax-exempt products, such as bottled water, soymilk and yogurt, exhibited robust growth as consumers shifted to alternatives not covered by the sweetened beverage tax. Combined with the volume-driven increase in revenues from glass production, ABI's revenues in 2018 reached Php15.1 billion, 9% higher than Php13.9 billion in 2017.

Cobra upheld its market leadership at 75% of the energy drinks market, further gaining shares from its competitors. Under the tag lines "Tunay na Lakas" and "Angat ang Lakas Mo", Cobra reinforces its position as the leading energy drink by highlighting the core benefits offered,



elevating it from other available refreshments in the market. Campaigns featuring the action primetime king and “Idol ng Masa”, Coco Martin, and presence in various popular sporting events further strengthened Cobra’s foothold in the mass market. As the market adjusted to the industry-wide price increase from the tax pass-on, the decline in volumes softened toward the fourth quarter of 2018, in line with industry trends. With its sustained revenue base, Cobra remained as the Company’s flagship product, accounting for 35% of revenues.

Bottled water, the second biggest contributor to revenues, sustained its growth momentum, increasing 13% over last year’s volume. Absolute and Summit bottled water brands ranked



second with 26% market share, just trailing behind its low-end competitor. Backed by strong marketing and advertising support, Absolute and Summit continue to strengthen brand equity with nationwide thematic campaigns through TV and digital platforms complemented by various trade programs and on-the-ground activations. Absolute’s “Pure water. Pure love.” new campaign featuring Judy Ann Santos and her kids reinforced its position as the affordable and most trusted bottled water brand for the Filipino family and consumer. Summit’s “Thirst for More” campaign with the tagline “Go out, get more.” was launched to convey its message of promoting an active lifestyle outdoors to the discerning youth. Pioneering the local production of drinking water in premium glass packaging, Summit Still and Summit Sparkling were launched in 330ml single serve and multi-serve formats at very affordable price points. To support the growing demand, ABI invested in a new bottled water plant in Pampanga which will expand capacity by 50%. The new plant is set to run in the first half of 2019.

Vitamilk continued to dominate the soymilk market with 76% market share and has maintained its position as one of the top brands in the ready-to-drink milk category. With the “Pagud-tom, Fills Good” campaign, Vitamilk positions itself as the healthy and energizing drink for the youth

market. Locally produced Vitamilk in 200ml returnable glass format continues to gain traction, growing by 95% in 2018 and expanding Vitamilk’s consumer base

as the product becomes available in sari-sari stores at an affordable price point.

In the packaging segment, the volume of commercial glass bottles sold to third party customers increased by 22% as more capacity is shifted back to production of orders from external customers. The packaging division has aggressively pursued large commercial glass customers through the emphasis on excellence in quality and customer service. As a result, it is now the preferred supplier of a large soft drinks manufacturer and a leading condiment and sauce producer for their glass container requirements.

Other emerging product lines continue to experience encouraging growth. Pascual Creamy Delight Yogurt for one, has achieved a healthy market share in consumer markets outside of Metro Manila where its expanded flavor line and long shelf life have distinct competitive advantages. Under a joint venture with Corporacion Empresarial Pascual of Spain, continuous product innovations and improved distribution strategies have resulted in a 16% growth in volume for 2018 at 35% market share.

Nestea ready-to-drink iced tea, on the other hand, under license from Nestle Philippines, grew by 22% in 2018 in the midst of a crowded market.



Backed by ABI’s local knowledge and distribution network, combined with the brewing and marketing expertise of The Heineken Company, AB Heineken Philippines, Inc.’s (ABHP) Heineken and Tiger beer brands continued their growth trajectory in 2018. Heineken’s “Nice shot superstar” campaign with Jordan Clarkson built awareness for the brand, generating great response amongst discerning young Filipino adults. Also in 2018, ABHP successfully launched Tiger Black and Tiger Crystal enabling the Company to serve consumers in all segments of the market.

Despite the revenue growth, ABI’s net income in 2018 declined to Php421 million from Php552 million in 2017. The decline was mainly due to the price-driven decline in Cobra’s volume, the impact of higher fuel costs, depreciation and manpower expenses, higher royalty fees due to growth in licensed products, and higher interest expense and share in the net loss of an associate.

ABI continues to invest in its partnerships and research and development efforts for new products, while strengthening operational and distribution efficiencies in order to focus on delivering product innovation and affordability to its customers in the Philippines and other markets.

Eton Properties Philippines, Inc.

Eton WestEnd Square, Makati, City



Eton Properties Philippines, Inc. posted record growth in 2018 on the back of strong real estate sales and a robust leasing business.

Surpassing expectations, the Company ended the year with a net income after tax of Php479 million, 38% higher than the Php348 million recorded in 2017.

Real estate sales increased 102% to Php1.7 billion, following accelerated sales and increased selling prices of Ready-for-Occupancy units in 8 Adriatico in Manila, 68 Roces in Quezon City, The Manors at North Belton Communities in Caloocan City, and West Wing Residences at Eton City in Sta. Rosa, Laguna.

Rental income also grew 8% to Php1.5 billion following the escalation of rental rates and stable occupancy of office spaces.

Correspondingly, the Company's gross revenues rose 43% to Php3.2 billion from Php2.2 billion the year before.

The growth in sales and the leasing business reflects Eton Properties' efforts to pursue the completion of its projects. In 2018, the Company completed the construction of Eton Square Ortigas in San Juan City, a pocket retail development serving residents of San Juan and Mandaluyong areas. Cyberpod Five, the Company's fifth office building in Eton Centris in Quezon City is nearing completion.

Construction is ongoing for mixed-use developments Eton City Square in Sta. Rosa, Laguna and Eton



Eton Square Ortigas, San Juan City

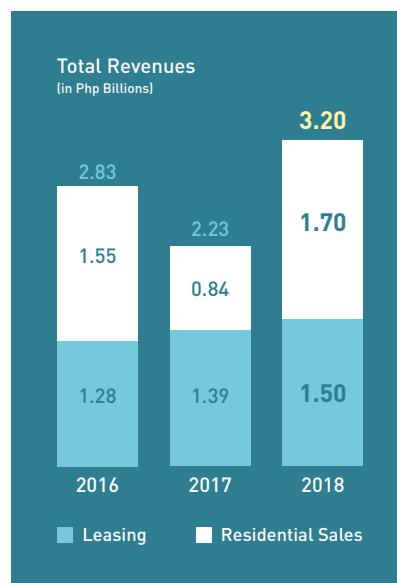
WestEnd Square in Makati City, thus ensuring a steady pipeline of products while sustaining marketing efforts. Once completed, these developments are envisioned to be spaces where people can come together, collaborate and build meaningful connections as a community.

At the end of the year, consolidated assets stood at Php31.5 billion, 6% higher than the Php29.7 billion consolidated assets recorded in 2017.

Meanwhile, total liabilities grew 10% to Php14.3 billion from Php13.0 billion in 2017.

Real estate inventory, on the other hand, decreased 19% to Php5 billion from Php6.2 billion as of end 2017 following the increase in real estate sales in 2018.

Forging ahead, the Company has developed a pipeline of office and commercial projects for sales and leasing to serve the evolving needs of the market. It is committed to



Centris Cyberpod Five, Eton Centris, Quezon City

maintain an optimal portfolio mix that balances recurring income and real estate sales in order to maximize shareholder value while addressing the demands of the market.

Eton Properties is committed to deliver a portfolio of high-quality projects and strategically located developments in the residential, office, and retail spaces in Metro Manila and emerging growth areas of the country, while consistently striving to be the most trusted developer in the minds of Filipinos.

PMFTC Inc.

Overview

PMFTC Inc. (PMFTC), the business combination between Philip Morris Philippines Manufacturing Inc. (PMPMI) and Fortune Tobacco Corporation (FTC), continues to be the leading cigarette manufacturer in the Philippines and has been providing the country's adult smokers with the best smoking experience through its diverse brand portfolio.

PMFTC manufactures 9 out of the top 15 brands available in the market today, led by Marlboro, the world's number one cigarette brand, and Fortune, the largest heritage home-grown brand in the Philippines.

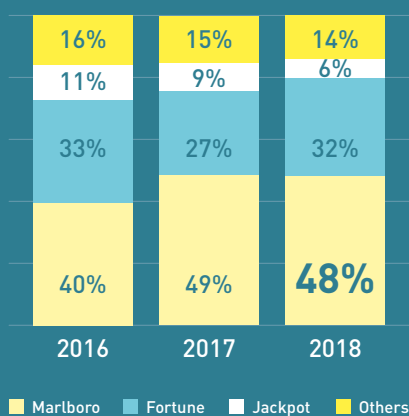
In 2018, excise tax on cigarettes increased after the President signed into law RA 10963 or the Tax Reform for Acceleration and Inclusion (TRAIN). The new excise tax rates were Php32.50 per pack from January 1, 2018 to June 30, 2018 and Php35.00 per pack from July 1, 2018. This rate should continue to increase in two increments of Php2.50 on January 1, 2020 and January 1, 2022, and, by 2024, this will increase by 4% per annum.

PMFTC's market share ended at 69.9%, up by 2.3 share points versus the prior year, with Marlboro and Fortune's share increases being the main drivers. Share changes are attributed to price increases of low price brands resulting in narrowed price gaps with Marlboro and Fortune. The share movements were also affected by the government's efforts to manage illicit trade, thus switching legal adult smokers back to the legal tobacco market. Lastly, the Company's 2018 net income also increased, mainly brought about by higher pricing.

PMFTC employs over 3,900 employees and directly and indirectly contracts around 3,300 tobacco farmers from the provinces of Ilocos Sur and Misamis Oriental. The Company relies on its competent and diverse workforce supported by individual development and a merit-based career management program that recognizes potential and rewards achievements. PMFTC is continually shaping its people and culture in order to continue to thrive in the coming years and beyond.

As a responsible corporate citizen, PMFTC, through its CSR program "Embrace", believes that giving back creates shared value that benefits the communities where it operates. Community investments depend on their needs with the aim of helping achieve the global Sustainable Development Goals (SDGs). Programs include access to quality education or vocational training, income-generating initiatives, and the promotion of women's leadership roles in society. The Company is also active in helping address natural or man-made disasters and other emergencies.

Sales Volume Mix





GOVERNMENT WARNING: CIGARETTE SMOKING IS DANGEROUS TO YOUR HEALTH



Sales and Marketing

Marlboro's solid performance continued in 2018, despite a price increase at the start of the year, validating the brand's strength and preference from legal-aged smokers (LAS). The brand performance was sustained with focused initiatives to manage stick price and build equity. 2018 was kicked-off with a multi-brand campaign, to reinforce the Maximum Recommended Retail Selling Price (RRSP) per stick for PMFTC's core brands: Marlboro, Fortune, and More. With a theme called "Laban!" (Fight!), the cycle had extensive support through visibility materials, empty-pack redemption (Kilo Panalo) and LAS engagement. In April 2018, Marlboro launched the

"Fight for Fresh" cycle, to build awareness and trial for its menthol variants, Marlboro Black Menthol and Ice Blast. This was followed in June 2018, with the launch of the global "Neuland" platform - an integrated online and offline campaign to bring to life Marlboro's values of passion and self-determination. The experiential platform tapped local innovators in the fields of Vision, Taste and Sound to build emotional connection with LAS and encourage them to pursue their own passions.

These efforts strengthened the brand's position as the country's and World's #1 cigarette brand.



2018 was an excellent year for Fortune as its share grew versus the previous year, mainly due to innovation and sustained brand support. The brand's packs were upgraded in July to make the brand more up to date and progressive and to harmonize the look of Fortune Core and Tribal variants. This was followed by image support through visibility, repurchase programs and



trade support. To enhance appeal with low price LAS, yearlong activations were conducted in major fiestas in the Philippines (e.g. Sinulog, Bangus festival, Masskara etc.), the centerpiece of which were thematically designed 'Festival' limited edition packs. These helped to reconnect the brand with its core audience and build on the brands promise of "Tatak Ng Tropang Tapat." The sustained efforts have further consolidated Fortune's position as the #1 local cigarette brand in the Philippines.



Operations

2018 was a breakthrough year for PMFTC Operations as it marked a leap closer to its 100+1 Vision. Coming from the turn-around in 2017, this year's performance finished strong and exceeded targets across Cost, Labor Productivity, Quality, Efficiency, and without accidents as Safety remains to be a top priority. Equally important, Philip Morris International awarded Philippines with Conventional Cigarette and Semi-finished Goods export volume to Asian affiliates and even to supply a material for Korea Reduced-Risk Products - a pioneering example of the new PMFTC Vision of being "At the Core of the Smoke-Free Revolution."

True to its commitment on Sustainability, the 2.5 Megawatt Solar Power Plant, the biggest in PMI Asia, was inaugurated in early November. Now operational and having supplied 3,500 Megawatt-Hours of emission-free solar energy to power the Batangas Manufacturing Plant, it is set to reduce more than 2,000 tons of CO₂ annually.

Operations' 100+1 Vision aims to deliver breakthrough business results and maintain it over time.

Organizational capability and systems have to be built to support, not the just the short term but long term goals. Through PMI's OPEN+ methodology, Philippines started its Phase 0 journey in June 2018 with Leadership capability achieving the target levels, base foundation systems in place, and receiving the highest rating globally, allowing the Company to continue the next capability building programs.

The momentum, coupled with robust plans for the future, gives the leadership and organization the confidence that 2019 will be another year leaping toward 100+1!

Illicit Trade

2018 marked another breakthrough in the fight against illicit trade. In Q1 2018, both the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BoC) created their respective task forces to combat illicit trade which complemented enforcement actions by the Philippine National Police (PNP). Seven (7) illegal factories were raided by the task forces of both BIR and BoC in different parts of the country.



Illegal cigarette factories were discovered and raided in Guiginto, Bulacan; San Simon, Pampanga; Brgy. Cugman, Cagayan De Oro; Villanueva, Misamis Oriental; Meycauayan, Bulacan; Gapan, Nueva Ecija; and Bugallon, Pangasinan. These illegal factories manufactured counterfeit cigarettes for sale in the Philippines. There were at least 76 enforcement actions collectively taken by BIR, BoC and PNP in 2018 (1.5 per week) which represents a 68% increase over the 45 enforcement actions in 2017.

For 2018, the Philippine government seized a total of Php23.6 billion worth of counterfeit goods, 188% more than last year's haul and a record-high amount in the past decade. According to the Intellectual Property Office of the Philippines (IPOPHL), 86% of the total amount seized are fake cigarettes valued at Php20.3 billion.

Illicit trade incidence measured via an empty pack survey was measured in Q2 2018 at 3.9%, down from 6.8% in 2017. To have a more effective measure of illicit trade incidence, a second empty pack survey with a more robust sampling plan which includes rural areas was taken in Q4 2018. There is reason to believe that the landscape of illicit cigarette has quickly evolved. With the cessation of operations of a domestic manufacturer which previously flooded the market with non-tax paid genuine products, the void is being or has been replaced by non-tax paid counterfeits and cheap contraband.

PMFTC will continue to work with government and the public to reduce and / or keep levels of illicit cigarette trade at manageable levels.

People and Culture

The year 2018 saw PMFTC take significant steps toward internal transformation. Recognizing both the opportunities and threats presented by a rapidly changing world and stringent competition, PMFTC strengthened organizational capability, leadership competence and employee engagement. These were anchored on five Leadership Energies (Consumer at the Core, Forward Leaning, Disruptive Innovator, Meaning Creator and People Activator) which capture the necessary mindsets and behaviors for the organization to succeed in the long term.

PMFTC continued to evolve its organization structure in Corporate Affairs, Operations, Marketing and Sales. It rolled out Fast-Forward, a consumer-centric innovation system which resulted in more than 30 projects on process improvement and customer engagement. It also set up its first ever Program Management Office (PMO) to ensure that the right projects are carried out at the right time with the right resources delivering optimal results.

PMFTC cascaded the new Leadership Energies throughout the organization and put in place reinforcement and engagement solutions to promote



employee adoption. A comprehensive leadership curriculum will be implemented in 2019 to build deeper competence in the five energies.

As our consumers grow more discerning and selective due to the availability of technology and competition, PMFTC realizes it has to outpace competition as far as customer intimacy and points of access are concerned. Hence, PMFTC ramped up efforts in upskilling the technical capabilities of its employees both in existing functional areas as well as new and future-oriented areas such as digital and customer experience management.

PMFTC welcomed more than 300 new hires during the year, including 10 Management Trainees and hires for positions that were only established in 2018 such as Business Intelligence, People Engagement and Scientific Engagement. PMFTC also leveraged its exciting vision as a communication platform for employer branding. It participated in several high profile external events leading to positive employer perception.

Inclusion and Diversity

PMFTC's commitment to achieving an inclusive workplace with diverse workforce continues to solidify.

PMFTC participated in the Global Equal Salary Certification Audit. The results of the survey would be made available in 2019 and if successful, PMI would be the first multinational consumer goods company to be awarded this distinction that indeed, gender-based biases are not present in the company. Flexible work arrangements have also been piloted in the PMFTC headquarters, with the goal of establishing core hours, so that employees can fulfill their professional responsibilities while being respectful of their individual contexts as well. Lastly, a SOGIE (Sexual Orientation, Gender Identity and Expression) talk was shared with Sales employees to ensure that work environments in the Sales Offices are inclusive and respectful of our LGBT colleagues.

Public Affairs and Corporate Citizenship

Tobacco Industry Roadmap. In response to the Philippine government's call to align programs to ASEAN 2025 and the United Nations Sustainable Development Goals (UN SDGs), PMFTC along with the other tobacco industry players once again gathered for the Second Philippine Tobacco Industry Forum in 2018. The said Forum which also took place on the occasion of NTA's 31st Anniversary promulgated the Tobacco Industry Roadmap ("Improving the Competitiveness of Farming Communities in the Philippines Towards

Poverty Reduction: The Case of Multi-Crop Farming tobacco-rice/corn sequence”) setting out a blueprint and a long-term development plan for the industry. Technical Working Groups (TWG) were established to ensure sustainability and monitor the implementation of plans and programs as outlined in the Roadmap.

Youth Smoking Prevention (YSP) Program. To demonstrate its commitment to market its products only to adult consumers and prevent youth smoking, PMFTC together with other partners conducts activities year-round, inspiring the youth to channel their time and strength to more productive things. The program aims to educate the youth on the importance of embracing wellness and healthy lifestyle by encouraging physical activities, adapting good hygiene habits and avoiding undesirable behaviors. In 2018, the Company officially inked partnership with the Philippine National Police to collaboratively implement “OPLAN BES: Bisita Eskwela I am STRONG” to an extension of the YSP component of RA9211 Tobacco Regulation Act. This joint project of PNP/Bisita Eskwela and PMFTC/I AM STRONG was able to inspire Filipino children nationwide.

Bright Leaf. PMFTC also successfully held the 12th Bright Leaf Agriculture Journalism Awards (Bright Leaf) to honor the most outstanding and relevant agriculture stories in print, radio and television. It honors the most compelling photos that capture the essence of farming and the agriculture industry.

Philippine Art Awards. Together with the Philippine Advocacy for the Arts Foundation Inc. (PAAFI), PMFTC named the 20 regional and five national winners of the 2017-2018 Season of the Philippine Art Awards (PAA). The PAA expanded its role in 2018 by going beyond its traditional role of giving awards. It partnered with several government and non-government organizations to implement various initiatives in the following areas: Art & Community Program, Art & Enterprise Program, and Art & Advocacy Initiatives. PAA will also be working with local art groups to promote art with the grassroots.



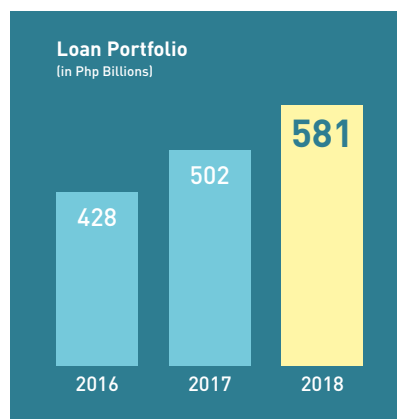
Philippine National Bank

The Philippine National Bank (PNB), one of the country's largest private universal banks, remains at the forefront of the country's economic development, providing a full range of banking products and services to a wide customer base.

In 2018, PNB registered a net profit of Php9.8 billion under the pooling method, 14% higher than its 2017 earnings of Php8.6 billion. The growth in net profit was a result of enhanced operational efficiencies and sustained efforts to strengthen the Bank's core business. Total operating income improved 20% to Php39.0 billion from year-ago level of Php32.5 billion on the back of increases in core revenues as well as gains from asset disposals. Net interest income reached Php27.0 billion, 23% higher compared to the previous year, driven by a 16% expansion in its loan portfolio. Net interest income also benefitted from the 22% growth in low-cost demand deposits. Net service fees and commission income grew by a modest 9% as improvements in deposit, trade and credit card-related fees as well as bancassurance income were offset by the decline in underwriting fees.

Net gains from sale of acquired assets increased 42% to Php5.9 billion in line with the Bank's ongoing strategy of reducing its non-earning assets. Operating expenses, excluding provisions for impairment and credit losses, grew 13% over the same period last year, as strong revenue growth translated to higher business taxes and other business-related expenses.

By the end of 2018, PNB's total consolidated resources stood at Php994.7 billion, up Php171.2 billion or 21% from year-ago level. The growth in assets was funded primarily by deposits, which grew 15% from end-2017 levels, as the Bank continued to focus on generating low-cost funds and other stable sources of funding.



In April 2018, PNB successfully issued US\$300 million in 5-Year Fixed Rate Senior Notes out of its US\$1 billion Medium Term Note (MTN) Program in Singapore and Hong Kong. This marked the first time that PNB tapped the international bond market for medium term dollar funding. Orders for the offering reached approximately US\$1.2 billion at its peak, equivalent to four-times oversubscription. The high demand for the initial issue was testament to the international investors' strong confidence in PNB.

Despite the robust loan growth, PNB's asset quality remained strong with non-performing loans (NPL) ratios of 0.34% (net of valuation reserves) and 1.76% (at gross), respectively. NPL coverage stood at 156.88%. PNB's consolidated risk-based capital adequacy ratio (CAR) continued to exceed the minimum regulatory requirement of 10%, with consolidated CAR at 14.35% and consolidated Common Equity Tier (CET) 1 ratio at 13.55% by end-2018.

Recognizing the consistent improvement in PNB's credit profile, Fitch Ratings affirmed in November 2018 PNB's long-term Issuer Default Rating at BB+. Likewise, Moody's

affirmed in December 2018 the Bank's foreign currency and local currency deposit ratings at Baa2/P-2, two notches above investment grade. The upgrade reflects the improvement in financial profile since PNB's merger with Allied Bank.

In mid-November 2018, PNB appointed its new President and Chief Executive Officer, Wick A. Veloso. His extensive banking and capital markets experience, locally and overseas, spans over 30 years and is expected to bring PNB to new levels of growth.

PNB participated in various landmark corporate finance deals to support the government's thrust for national development. Some of the bank's noteworthy domestic funding projects included large corporates such as Bloomberry Resorts Corporation, San Miguel Consolidated Power Corporation, and Megawide Construction Corporation, to name a few. In the Asset Triple A Country Awards 2018, PNB and PNB Savings Bank received the Best Syndicated Loan award as lenders for the Bloomberry Resorts and Hotels' Php73.5-billion syndicated term loan facility. The Asset cited the transaction as "one of the largest corporate syndications ever arranged in the Philippine debt market".

Through PNB Connect, a comprehensive portfolio of customized financial solutions, the Bank harnessed the supply chain by bringing together an entire community of small and medium enterprises, suppliers and their customers. PNB partnered with non-traditional financial institutions such as pawnshops, bayad centers and remittance companies to cater to the unbanked population. To date, the Bank has successfully launched seven credit product programs for industries in the power distribution, automotive, construction and consumer goods distribution.

PNB strengthened its partnership with Philippine Airlines (PAL) and Mabuhay Miles to meet the needs of the growing lifestyle market. PNB Cards launched two new products with improved rewards features. The PNB-PAL Mabuhay Miles NOW Mastercard, which caters to 'millennials', generated around 8,000 active accounts and half a billion billings since it was launched in March 2018. Following this successful release was another co-branded card: the PNB-PAL Mabuhay Miles Debit Mastercard. The card was introduced via a "Debit for Miles" promotion campaign to encourage customer acquisition and usage.

In October 2018, PNB's Board of Directors approved the integration of its wholly-owned thrift bank subsidiary, PNB Savings Bank (PNBSB) into the parent bank, subject to regulatory and other necessary approvals. Upon full integration, PNB will be able to deliver a more efficient banking experience and serve a wider customer base, while the customers of PNBSB will have access to PNB's diverse portfolio of financial solutions. The consumer



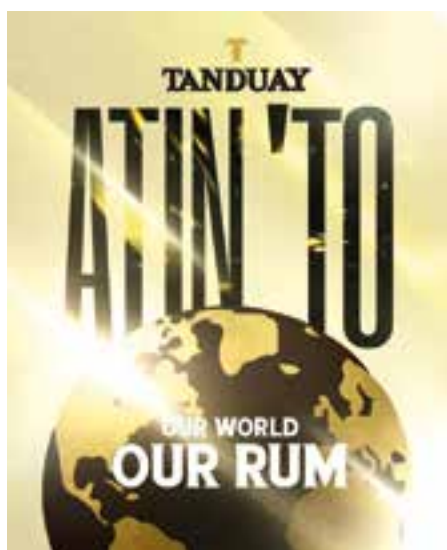
lending business, currently operated through PNBSB, will also benefit from PNB's ability to efficiently raise low cost of funds.

By year-end 2018, PNB had a total of 644 domestic branches while PNB Savings Bank had 67 branches. Overseas, PNB's network remained the largest among Philippine banks with 72 branches and offices across Asia, the Middle East, North America and Europe.

At the awards front, several recognitions were given to loan products. PNB Savings Bank's Smart Personal Loan with Double won the Consumer Finance Product of the Year award from two esteemed award-giving bodies: Asian Banking and Finance Retail Banking Awards 2018 and The Asian Banker Awards 2018. It was also recognized as the Best Loan and Mortgage Product in the Philippines by the International Finance Awards.

While focusing on initiatives to drive business and profitability, PNB also continued to strengthen corporate governance as part of being a responsible corporate citizen. In July, the bank was cited by the Institute of Corporate Directors (ICD) as among the top-performing publicly-listed companies (PLCs) that ranked high under the ASEAN Corporate Governance Scorecard (ACGS). Out of the 245 companies assessed, PNB was among the 21 Philippine PLCs that scored 90 points and above. The Bank was also among the Top 5 PLCs in the Financial Sector recognized for exemplary corporate governance practices.

The year 2019 is filled with emerging technologies, non-conventional competitors and fast-evolving market needs that pose a great challenge to the entire local banking industry. With its new leadership, PNB has revitalized its drive to rise to this challenge. The Bank is committed to create more value for its customers, shareholders, employees and business partners. PNB will continue to be the bank that Filipinos can lean on.



Tanduay Distillers, Inc.



Tanduay officially took over the number one spot among the world's rum brands in terms of sales volume based on the 2017 ranking of Drinks International. Tanduay also garnered its fourth consecutive Brand of the Year – Spirits Category award from the World Branding Forum. These accolades affirmed Tanduay's stature as a global brand and underscores its world-class craftsmanship in liquor-making.

Sales volume breached the twenty million mark in 2018 as it improved 3% year on year to 20.1 million cases, the highest level in the last five years.

On the other hand, the local spirits industry contracted by 5% in 2018 as consumer spending on non-essential commodities like liquor declined due to inflationary pressures. This weighed on the brandy segment which declined by 18% while gin and rum both grew by 3%. On a regional basis, Luzon declined by 6% while Visayas-Mindanao posted a lower decrease of 2%.

The Company's market share in terms of sales volume improved to 27% from 25% year on year as it continued to recover market share in the VisMin area to 67% from 64%. This was primarily a result of the intensive dealer retention and aggressive marketing campaign



that the Company has undertaken in the last three years.

Revenues improved by 8% to Php18.1 billion from Php16.8 billion with the higher volumes for liquor and bioethanol, complemented by higher average selling prices. Cost of sales amounted to Php14.8 billion or an increase of 5%, which was a result of higher excise tax and packaging materials costs. Alcohol costs, however, declined as a result of the softening of molasses prices. Gross profit improved by Php571 million or 21%.

Net income after tax amounted to Php909 million, an increase of 44% from last year's Php631 million primarily due to higher gross profit which grew more than the increase in operating expenses and income tax.

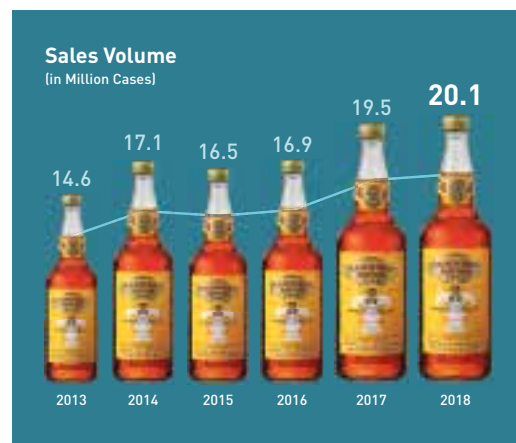
Tanduay continuously explores the ever-changing marketing landscape and capitalizes on emerging consumer trends. In 2018, it entered into a new liquor category – the whisky segment. It launched “**Embassy Whisky**”, a low proof whisky drink that will cater to the younger, more affluent consumers who demand a new drinking experience. The product aims to be the drink of choice of young professionals, the most socially outgoing among liquor drinkers.

Tanduay also aims to increase its market presence abroad by expanding its distribution network in the USA, Europe and the Middle East.

Tanduay Asian Rum, its primary export product, won

anew in prestigious international spirits competitions in 2018– Gold award from the Rum & Cachaca Masters; Double Gold medal and best white rum citation from the San Francisco World Spirits Competition; Gold and Silver award from the Chicago-based Beverage Testing Institute and Category Winner for Column Still Rum from the World Rum Awards.

Riding on its strong brand equity and world-class craftsmanship, Tanduay will continue to push harder toward its vision of becoming a dominant global brand that the Filipino will be proud of.





LT Group, Inc., otherwise known as LTG, believes that good corporate governance lies in its ability to execute its mission and vision while at the same time contribute positively to the economy and the society. It has to efficiently balance the interests of the Company, its stakeholders, shareholders, customers, suppliers, partners, the government and the community.

To do so, the Company has placed men and women of vast knowledge and competence in its Board of Directors with the crucial task of running and bringing the Company to greater heights.

In its pursuit of further promoting a strong corporate governance culture, the Board approved, adopted and implemented changes and/or amendments in its Corporate Governance Manual last September 4, 2018. These changes were made to update and comply with the recommendations of the Securities and Exchange Commission, specifically the SEC Memorandum No. 19-16. The changes made included the reorganization and centralization of the structure and function of the internal audit, among others.

BOARD COMPOSITION

Throughout the years, the Company grew for the better due to the different views and knowledge imparted by the diverse members of the Board of Directors. Believing that its overall performance will be in keeping with its vision of ensuring continuous benefits to its consumers, communities, employees, business partners and stakeholders, the Company, with the approval of its shareholders, have previously elected and maintained three (3) women directors: Ms. Carmen K. Tan, Ms. Florencia G. Tarriela and Ms. Juanita T. Tan Lee. Up to this date, these women have generously shared their knowledge and expertise for the best interest of the Company.

In 2018, the Company amended its Articles of Incorporation and By-Laws and reduced the number of directors to eleven (11) from thirteen (13) with the intent of improving the efficiency of the Board. Likewise, following the recommendations of the SEC, the Board is composed of 85% non-executive directors, and 15% executive Directors which ensured a balance outlook and assessment in making the various business decisions on behalf of the Company. Out of the eleven Directors, four (4) men and women of probity and intelligence are Independent Directors. Further, as required by the SEC, these Independent Directors do not own more than 2% of the Company's outstanding capital stock; have no ties with management; and are free from any business or other relationships which could, or could possibly be perceived to materially interfere with their exercise of independent judgment in carrying out their responsibilities as Independent Directors of the Company.

The Company's Board of Directors are composed of the following men and women:



Dr. Lucio C. Tan, 84, Chairman and CEO
Dr. Tan is the Chairman of Philippine Airlines, Inc., Asia Brewery, Inc., Eton Properties Philippines, Inc., **MacroAsia Corp.**, Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries, Inc., Lucky Travel Corp., **PAL Holdings, Inc.**, Air Philippines Corporation, Tandua Distillers, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Foremost Farms, Inc. and Basic Holdings Corp. He is also a Director of **Philippine National Bank**. He holds a Bachelor of Science degree in Chemical Engineering from Far Eastern University. He was awarded the degree of Doctor of Philosophy, major in Commerce, by the University of Santo Tomas in 2003 and is an awardee of several other honorary Doctorate degrees.

Board Attendance: 83%: 10 of 12 Board Meetings

Date of First Appointment: July 2, 1999

No. of Years on the Board: 19 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Carmen K. Tan, 77, Director
Ms. Tan is a Director of Asia Brewery, Inc., The Charter House, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., **PAL Holdings, Inc.**, Air Philippines Corporation, Fortune Tobacco Corp., Tandua Distillers, Inc., Himmel Industries, Inc., Lucky Travel Corp., Progressive Farms, Inc., **MacroAsia Corp.**, **Philippine National Bank**, and PMFTC Inc.

Board Attendance: 58%: 7 of 12 Board Meetings

Date of First Appointment: May 5, 2010

No. of Years on the Board: 8 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Harry C. Tan, 72, Director
Mr. Tan is a Director of Eton Properties Philippines, Inc., Pan Asia Securities Corp., and Lucky Travel Corp. He is also the Managing Director of The Charter House, Inc., Director/Chairman for Tobacco Board of Fortune Tobacco Corp., Director/President of Century Park Hotel and Landcom Realty Corp. He serves as Director of Asia Brewery, Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Basic Holdings Corp., Foremost Farms, Inc., Himmel Industries, Inc., PMFTC Inc., Progressive Farms, Inc., Grandspan Development Corp. and Tandua Distillers, Inc. He holds a Bachelor of Science degree in Chemical Engineering from the Mapua Institute of Technology.

Board Attendance: 83%: 10 of 12 Board Meetings

Date of First Appointment: May 28, 2008.

No. of Years on the Board: 10 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Lucio K. Tan, Jr., 52, Director
Mr. Tan is a Director/President of Tandua Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., **Philippine National Bank**, **PAL Holdings, Inc.**, **MacroAsia Corp.**, **Victorias Milling Co., Inc.**, PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Grandspan Development Corporation and Shareholdings, Inc. He graduated from the University of California, Davis in 1991 with a Bachelor of Science degree in Civil Engineering and has a Master's Degree in Business Administration from the Kellogg School of Management Northwestern University.

Board Attendance: 75%: 9 of 12 Board Meetings

Date of First Appointment: February 21, 2003

No. of Years on the Board: 15 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Michael G. Tan, 52. President and COO

Mr. Tan is a Director and the Chief Operating Officer of Asia Brewery, Inc. (ABI). He joined ABI in 1991, and held various positions until his appointment to his current position in 2000. He is also a Director of Tanduay Distillers, Inc., Eton Properties Philippines, Inc., **Philippine National Bank**, PMFTC Inc., **Victorias Milling Co., Inc.**, **MacroAsia Corp.**, Abacus Distribution Systems Philippines, Inc., AlliedBankers Insurance Corp., Lucky Travel Corp., Maranaw Hotel (Century Park Hotel), Pan Asia Securities Corp., Philippine Airlines, Inc., and Shareholdings, Inc. He is a Director and the Treasurer of **PAL Holdings, Inc.** and Air Philippines Corporation. He graduated top of his class at the University of British Columbia in Canada with a Bachelor of Science degree in Applied Science in Engineering, major in Structural Engineering.

Board Attendance: 100%: 12 of 12 Board Meetings

Date of First Appointment: February 21, 2003

No. of Years on the Board: 15 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Juanita T. Tan Lee, 76. Director and Treasurer

Ms. Tan Lee is a Director of Eton Properties Philippines, Inc., Asia Brewery, Inc. and Tanduay Distillers, Inc.; Director/Corporate Secretary of Fortune Tobacco Corp., Corporate Secretary of Absolut Distillers, Inc., The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., PMFTC Inc., and Progressive Farms, Inc. and Assistant Corporate Secretary of Basic Holdings Corp. She holds a Bachelor of Science degree in Business Administration major in Accounting from the University of the East.

Board Attendance: 92%: 11 of 12 Board Meetings

Date of First Appointment: May 2, 2012

No. of Years on the Board: 6 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Peter Y. Ong, 70. Director

Mr. Ong is a Director and the Treasurer of Merit Holdings & Equities Corporation; Director of Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation and Solar Holdings Corporation; Former President of Air Philippines Corporation, Former Senior Vice President for Production of Fortune Tobacco Corporation and Former Director of Allied Savings Bank. Mr. Ong graduated from the Mapua Institute of Technology with a Bachelor of Science degree in Chemical Engineering.

Board Attendance: 100%: 12 of 12 Board Meetings

Date of First Appointment: June 9, 2014

No. of Years on the Board: 4 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Wilfrido E. Sanchez, 81. Independent Director

Mr. Sanchez is the 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 Corp., **EEL Corporation**, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., **House of Investments Inc.**, JVR Foundation Inc., Kawasaki Motor Corp., Magellan Capital Holdings Corp., Omico Corporation; PETNET Inc., PETPLANS Inc., Transnational Diversified Corp., Transnational Diversified Group Inc., Transnational Financial Services Inc., and **Universal Robina Corp.**; Independent Director of Eton Properties Philippines, Inc., Asia Brewery, Inc. and Tanduay Distillers, Inc. He is a Director of Mabuhay Digital Philippines, Inc. and Mabuhay Digital Technologies, Inc. He holds a Bachelor of Arts degree from the Ateneo de Manila University and has a Post-Graduate degree in Bachelor of Laws from the Ateneo De Manila University and Masters of Law from Yale Law School.

Board Attendance: 100%: 12 of 12 Board Meetings

Date of First Appointment: July 31, 2012

No. of Years on the Board: 6 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Florencia G. Tarriela, 71. Independent Director

Ms. Tarriela is the Chairman of the Board of Directors and an Independent Director of **Philippine National Bank**. She also serves as Chair of PNB Global Remittance and Financial Co. HK Ltd.. She is a Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship Inc., Summer Institute of Linguistics, and TulaysaPagunlad Inc.; and a Columnist of Manila Bulletin. She obtained her Bachelor of Science in Business Administration, major in Economics, at the University of the Philippines and her Masters in Economics from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination. She is a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL) and the Financial Executive Institute of the Philippines (Finex), a Trustee of Finex Foundation, TSPI Development Corporation, Kilosbayan and the Summer Institute of Linguistics (SIL). She was formerly an Independent Director of the Philippine Depository and Trust Corporation, the Philippine Dealing and Exchange Corporation and the Philippine Dealing System Holdings Corporation. Ms. Tarriela was a former Undersecretary of Finance, and an alternate Member of the Monetary Board of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation. She was formerly Deputy Country Head, Managing Partner and the first Filipino lady Vice President of Citibank N. A., Philippine Branch.

Board Attendance: 92%: 11 of 12 Board Meetings

Date of First Appointment: August 9, 2012

No. of Years on the Board: 6 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Robin C. Sy, 83. Independent Director

Mr. Sy is the President of Asian Shipping Corporation, Independent Non-executive Director of Dynamic Holdings Limited, Honorary President of the Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc., Former Director of Air Philippines Corporation and Former Director of Zuma Holdings and Management Corporation. His companies are engaged in shipbuilding and repairing business as well as heavy construction equipment trading field in the Philippines.

Board Attendance: 92%: 11 of 12 Board Meetings

Date of First Appointment: June 9, 2014

No. of Years on the Board: 4 Years

Other Information: No conflict of interest transactions in the past one (1) year.



Johnip G. Cua, 62. Independent Director

Mr. Cua served as a member of the Board of Advisors since August 2014 until his appointment as Independent Director in May 2018. He was formerly the President of Procter & Gamble Philippines Inc. (1995-2006), and currently the Chairman of the Board of the P&Gers Fund Inc. (2009 to present) and Xavier School Inc. (2012 to present), and the Chairman & President of Taibrews Corporation (2011 to present). He is an Independent Director of BDO Private Bank (2008 to present), PhilPlans First Inc. (2009 to present), STI Education Systems Holdings Inc. (2012 to present), **MacroAsia Corp.** (2006 to present), MacroAsia Catering Services Inc. (2007 to present), and MacroAsia Airport Services Corp. (2007 to present). He is also a member of the Board of Directors of **PAL Holdings, Inc.** (2014 to present), Philippine Airlines, Inc. (2014 to present), Interbake Marketing Corp. (1991 to present), Teambake Marketing Corp. (1994 to present), Bakerson Corp. (2002 to present), Lartizan Corp. (2007 to present), Alpha Alleanza Manufacturing Inc. (2008 to present), and Allied Botanical Corp. (2012 to present), and a member of the Board of Trustees of Xavier School Educational & Trust Fund (1996 to present). He was formerly the Chairman of the Board of Trustees of the Advertising Foundation of the Philippines (2006-2010).

Board Attendance: 100%: 12 of 12 Board Meetings

Date of First Appointment: May 8, 2018

No. of Years on the Board: 1 Year

Other Information: No conflict of interest transactions in the past one (1) year.



CORPORATE GOVERNANCE REPORT

BOARD RESPONSIBILITIES

As provided in the Company's By-Laws, the Board of Directors regularly hold meetings every second Tuesday of the month where all companies under the conglomerate are represented by their respective Chief Financial Officers (CFOs) or Chief Operating Officers (COOs). In the meeting, the CFOs report on the operational results of their respective divisions and brief the Board on other developments in the market place such as the effect of government initiatives on the volume and revenues of the companies. Moreover the plans and initiatives of each subsidiaries are likewise discussed in the meeting.

During the quarterly meetings, aside from the CFOs, the subsidiaries' Presidents/CEOs or COOs are likewise required to be present to answer any possible queries from the Board.

As shown in the table below, the Board conducted twelve (12) meetings for the year 2018 with consistent participation by its members throughout the year.

Board	Name	Date of Election	No. of Meetings Held during the year (2018)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	05/08/2018	12	10	83
Member	Carmen K. Tan	05/08/2018	12	7	58
Member	Harry C. Tan	05/08/2018	12	10	83
Member	Michael G. Tan	05/08/2018	12	12	100
Member	Lucio K. Tan, Jr.	05/08/2018	12	9	75
Member	Juanita T. Tan Lee	05/08/2018	12	11	92
Member	Peter Y. Ong	05/08/2018	12	12	100
Independent	Robin C. Sy	05/08/2018	12	11	92
Independent	Florencia G. Tarriela	05/08/2018	12	11	92
Independent	Wilfrido E. Sanchez	05/08/2018	12	12	100
Independent	Johnip G. Cua	05/08/2018	12	12	100

Based on the table above, it is clear that the members of the Board exercise diligence in attending to the affairs of the Company in order to keep its reputation and remain competitive in its line of industry.

BOARD COMMITTEES

The Company has four (4) committees which assist the Board in its oversight function over the Company 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.

Name	Nomination and Compensation	Audit and Risk Management	Executive	Corporate Governance
Lucio C. Tan	C		C	
Carmen K. Tan				
Harry C. Tan	√		√	
Michael G. Tan	√		√	√
Lucio K. Tan, Jr.	√	√	√	√
Juanita T. Tan Lee	√	√	√	
Peter Y. Ong				
Wilfrido E. Sanchez	√	√		√
Florencia G. Tarriela		√	√	C
Robin C. Sy				
Johnip G. Cua		C	√	√

AUDIT AND RISK MANAGEMENT COMMITTEE

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 Company's process for monitoring compliance with laws and regulations including related party transactions.

The Committee's members include the following: Mr. Johnip G. Cua,

Chairman, and Lucio K. Tan, Jr., Juanita Tan Lee, Florencia G. Tarriela and Wilfrido E. Sanchez as members.

In appointing its Chairman, the Company carefully selected Mr. Cua whose qualifications are undeniable given his length of stay as chairman/officer in various companies, noting that these companies as mentioned above are all successful and leading in their respective industries.

For the Company, he has served as a member of the Board of Advisors since August 2014. At present, he holds various positions in different corporations and organizations within and outside the Company.

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Antonino L. Alindogan, Jr.*	06/20/2017	7	3	43	4 years
Chairman (ID)	Johnip G. Cua	05/08/2018	7	3	43	1 year
Member (NED)	Lucio K. Tan, Jr.	05/08/2018	7	0	0	13 years
Member (ID)	Wilfrido E. Sanchez	05/08/2018	7	7	100	5 years
Member (ID)	Florencia G. Tarriela	05/08/2018	7	5	71	4 years
Member (ED)	Juanita T. Tan Lee	05/08/2018	7	4	57	13 years

*Deceased on May 7, 2018.

In 2018, the Committee conducted seven (7) meetings:

For the calendar year 2018, the Committee:

- Reviewed and approved the audit report and audited financial statements as of and for the period ended December 31, 2017 as examined and presented by SGV & Co. and endorsed them to the Board of Directors;
- Reviewed, discussed and endorsed the unaudited consolidated quarterly financial statements of the Company, including management's significant judgments and estimates for approval of the Board of Directors;
- Reviewed the scope of work and fees of the external auditors, assessed their independence and effectiveness, and endorsed them to the Board of Directors;
- Reviewed and approved the audit plan of the Internal Audit for 2018, and the audit plan of the external auditors for the consolidated financial statements of the Company as of and for the period ended December 31, 2018;
- Reviewed the results of the audits of the internal auditors on prioritized risk areas of the Company and its subsidiaries; and
- Reviewed and approved the Revised Internal Audit Charter to enhance the function structure of the Internal Audit and consider emerging risk issues.

Moreover, as part of its responsibilities to oversee related party transactions and ultimately ensure that the minority shareholders and stakeholders are not unduly prejudiced in any of the transactions, the Committee likewise reviewed the said transactions as well as the Tax Plans for the subsequent year. Most importantly, the Committee found it best to the interest of the Company that the audit structure be reorganized and converted into a centralized function to allow a better and more focused review and supervision over the whole Company and its subsidiaries.

EXECUTIVE COMMITTEE

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., 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 Company's Revised Corporate Governance Manual.

The Committee's charter provides that the members only meet on an as-needed basis. Incidentally, in 2018, no urgent matters arose requiring the approval of the Committee, hence, no meeting ensued.

NOMINATION AND COMPENSATION COMMITTEE

The Company'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., Mr. Michael G. Tan, Ms. Juanita T. Tan Lee and Mr. Wilfrido E. Sanchez as its members.

The Committee only 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.

On May 8, 2018, the Committee convened and passed upon the qualifications of the following candidates who are nominated to hold key positions in the Company:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Lucio C. Tan	05/08/2018	1	1	100	4 years
Member (ED)	Harry C. Tan	05/08/2018	1	1	100	4 years
Member (NED)	Lucio K. Tan, Jr.	05/08/2018	1	1	100	4 years
Member (ED)	Michael G. Tan	05/08/2018	1	1	100	4 years
Member (ID)	Wilfrido E. Sanchez	05/08/2018	1	1	100	4 years
Member (ED)	Juanita T. Tan Lee	05/08/2018	1	1	100	12 years

CORPORATE GOVERNANCE COMMITTEE

The Company 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., Mr. Michael G. Tan, Mr. Johnip G. Cua and Mr. Wilfrido E. Sanchez as its members.

The Company ensured that the Chairman is knowledgeable and competent in the given responsibility. As part of her qualifications, the Chairman, at present, is likewise the Chairman of a bank. She previously worked with one of the biggest international banks in the country; was formerly the Undersecretary of Finance of the Philippine Government; and was an alternate member of the Monetary Board of the Bangko Sentral ng Pilipinas (Central Bank). She obtained her Bachelor of Science in Business Administration major in Economics from the University of the Philippines and Masters in Economics from the University of California, Los Angeles.

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 evaluations, that a Director is capable of fulfilling and has been adequately carrying out his duties and responsibilities as such. Pursuant to the Company's Revised Manual on Corporate Governance, the Committee shall meet at least once every quarter.

In 2018, the Committee conducted one (1) joint meeting with the Audit and Risk Management Committee as shown in the table below:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee*
Chairman	Florencia G. Tarriela	05/08/2018	1	1	100	5 years
Member (ID)	Lucio K. Tan, Jr.	05/08/2018	1	0	0	5 years
Member (ED)	Michael G. Tan	05/08/2018	1	0	0	5 years
Member (ID)	Johnip G. Cua	05/08/2018	1	1	100	1 year
Member (ID)	Wilfrido E. Sanchez	05/08/2018	1	1	100	1 year

During the meeting of the Committee for the year, it was able to re-evaluate whether the Company is compliant with the different recommendations/requirements of the Securities and Exchange Commission (SEC) with respect to the execution by its committees of their respective duties and responsibilities, the protection and safeguarding of the rights of its shareholders, and the establishment of a website with all the recommended items uploaded therein, among others. The Committee then learned that it will be more effective in keeping with its pursuit of good governance if some provisions in its Revised Manual on Corporate Governance are amended to include those

recommended by the SEC. Ultimately, those provisions were thereafter approved by the Committee and are now part of the said Manual which must be respected and complied with by the whole Company including its subsidiaries.

MANAGEMENT

The management is under the experienced leadership of Dr. Lucio C. Tan, Chairman/CEO and Mr. Michael G. Tan, President/COO. The President, in close coordination with the Chairman/CEO, deals with the highly critical and sensitive issues. Throughout the years, it is without a doubt that, with the continued support and hard work of the different subsidiaries, the Company will only continue to prosper.

During the Annual Stockholders' meeting held last May 8, 2018, ten (10) out of eleven (11) Directors attended, as shown in the table below:

Name of the Director	Present	Absent
Lucio C. Tan	✓	
Carmen K. Tan	✓	
Lucio K. Tan, Jr.		✓
Harry C. Tan	✓	
Michael G. Tan	✓	
Juanita T. Tan Lee	✓	
Peter Y. Ong	✓	
Florencia G. Tarriela	✓	
Wilfrido E. Sanchez	✓	
Johnip G. Cua	✓	
Robin C. Sy	✓	

TRAINING OF DIRECTORS

The SEC Memorandum Circular No. 20, series of 2013 requires that the officers and directors of the Company attend the Corporate Governance seminars conducted by the different SEC-accredited institutions within the year to keep themselves up-to-date with the current trends and necessities of being globally competitive. In compliance therewith, the Company directors, advisors and officers attended the following corporate governance seminars as provided in the table below:



Board of Directors:

Name of Director	Date of Seminar Attended	Program	Name of Training Institution
Lucio C. Tan	June 5, 2018	ICD Distinguished Corporate Governance Series	The Institute of Corporate Directors
Carmen K. Tan	June 5, 2018	ICD Distinguished Corporate Governance Series	The Institute of Corporate Directors
Harry C. Tan	June 5, 2018	ICD Distinguished Corporate Governance Series	The Institute of Corporate Directors
Lucio K. Tan, Jr.	November 13, 2018	Risks, Opportunities, Assessment and Management	Roam, Inc.
Michael G. Tan	December 6, 2018	Professional Values, Ethics and Attitudes	Sycip, Gorres and Velayo Co.
Juanita T. Tan Lee	June 5, 2018	Distinguished Corporate Governance Speaker Series	The Institute of Corporate Directors
Peter Y. Ong	June 5, 2018	ICD Distinguished Corporate Governance Series	The Institute of Corporate Directors
Wilfrido E. Sanchez	November 21, 2018	RCBC 2018 Annual Seminar	RCBC
Florencia G. Tarriela	June 5, 2018	ICD Distinguished Corporate Governance Series	The Institute of Corporate Directors
Robin C. Sy	December 6, 2018	Professional Values, Ethic and Attitudes	Sycip, Gorres and Velayo & Co.
Johnip G. Cua	August 28, 2018	ICD Advanced Corporate Governance Training Program	The Institute of Corporate Directors



CORPORATE GOVERNANCE REPORT

Board of Advisors:

Name	Date of Seminar Attended	Program	Service Provider
Vivienne K. Tan	November 13, 2018	Risks, Opportunities, Assessment and Management	Roam, Inc.

Officers:

Name	Position	Date of Seminar attended	Program	Service Provider
Ma. Cecilia L. Pesayco	Corporate Secretary	June 5, 2018	ICD Distinguished Corporate Governance Series	Institute of Corporate Directors
Marivic T. Moya	Asst. Corp. Secretary	November 13, 2018	Risks, Opportunities, Assessment and Management	Roam, Inc.
Jose Gabriel D. Olives	Chief Financial Officer	June 5, 2018	ICD Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors
Dioscoro Teodorico L. Lim	Chief Audit Executive	June 5, 2018	ICD Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors

DISCLOSURE AND TRANSPARENCY UNSTRUCTURED DISCLOSURES

In 2018, the Company made the following disclosures to the SEC and the PSE and subsequently had those uploaded in its website for proper and efficient dissemination of information to its shareholders:

- Clarification of News Report: *“Group taps Changi Airport operator for airport plan”* dated February 8, 2018
- Clarification of News Report: *“Super Consortium shapes up”* dated February 9, 2018
- Press Release: *“Super consortium eyes NAIA transformation into a regional hub Group composed of 7 biggest conglomerates submits unsolicited proposal to DOTr”* dated February 12, 2018
- Change in Director: *Resignation of Mr. Joseph T. Chua* dated February 13, 2018
- Amendment of Articles of Incorporation: *Amending Article 6 to reduce the number of directors from thirteen (13) to eleven (11)* dated March 8, 2018
- Declaration of Cash Dividend dated March 13, 2018
- Press Release: *“LTG’s Full Year 2017 Net Income at Php10.83Billion, 15% Higher Than 2016”* dated March 16, 2018
- Change in Director: *Death of Mr. Antonino L. Alindogan, Jr.* dated May 7, 2018
- Press Release: *“LTG expects 2018 to be better, but challenging for some consumer businesses”* dated May 8, 2018
- Press Release: *“LTG’s First Quarter Net Income at Php3.63 Billion”* dated May 11, 2018
- Amendment of Articles of Incorporation: *“Approval of the Amendment of Article 6 to reduce the number of directors from thirteen (13) to eleven (11)”* dated July 19, 2018
- Press Release: *“LTG’s First Half Net Income at Php8.96Billion”* dated August 13, 2018
- Press Release: *“NAIA Consortium”* dated September 13, 2018
- Acquisition of Shares of Another Corporation: *Subscription of shares in Asia’s Emerging Dragon Corporation* dated September 24, 2018
- Press Release: *“LTG’s Income for First Nine Months of 2018 at Php12.57Billion”* dated November 12, 2018

DISCLOSURE AND TIMING

The Company, as a publicly listed corporation, subscribes to and complies with the rules and regulations of the Securities and Exchange Commission and the Philippines Stock Exchange.

In compliance with its obligations to the investing public, the Company immediately informs its shareholders and the investing public of any material information relating to the actions or decisions of the Board which may or might affect the Company. These disclosures, immediately after its approval or confirmation by the Board, are filed with the SEC and the PSE and may be accessed through the Company’s website: www.ltg.com.ph.

Aside from the urgent disclosures made by the Company regarding its financial condition, investments and acquisitions, if any, it has been the Company’s practice, in compliance with the rules as provided by the SEC, that the Minutes of the Stockholders’ Meeting be uploaded in the Company website within five (5) days from the date of the said meeting and the Audited Financial Statements (SEC Form 17-A) for the year be submitted to the SEC and PSE at least two months before the Annual Stockholders’ Meeting is held. In 2018, the Company’s Audited Financial Statement was submitted to the SEC and the PSE on March 21, 2018, at least 47 days before the Annual Stockholders’ Meeting.

Moreover, in accordance with the prescribed period of 45 days from the end of the financial period, the interim and quarterly financial statements and results of operations are submitted to the regulators well within the said period. Throughout the year, periodic financial statements are likewise submitted or made available to the stock market through the analysts’ briefings regularly conducted by the Company wherein members of the Management are required to be present to answer any questions raised by the analysts. All these disclosures are thereafter uploaded in the Company website and may be subsequently viewed therein.

OWNERSHIP STRUCTURE

The Company’s outstanding common shares held by record owners of more than 5% are as follows:

Title of Class	Name of Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation	Filipino	8,046,318,193	74.36%
Common	PCD Nominee Corporation	Non-Filipino	1,515,643,380	14%

BOARD REMUNERATION COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The Company’s Directors receive an allowance of Php30,000.00 a month and a per diem of Php25,000.00 for every Board meeting and Php15,000.00 for every Committee meeting attended.

Other than those mentioned above, no other standard arrangements are received by the Directors of the Company as compensation, directly or indirectly, for any services rendered as such, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.

SUMMARY OF ANNUAL COMPENSATION

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2019 (Estimate)	8,184,000	682,000	2,997,500
	2018	7,440,000	620,000	2,725,000
	2017	7,340,000	330,000	2,875,000
All other officers and directors as a group unnamed	2019 (Estimate)	2,640,000	220,000	7,051,000
	2018	2,400,000	200,000	6,410,000
	2017	2,400,000	200,000	7,225,000

*Others – includes per diem of directors

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

- Dr. Lucio C. Tan is the Chairman of the Board of Directors and Chief Executive Officer (CEO).
- Mr. Michael G. Tan is the President.
- Atty. Ma. Cecilia Pesayco is the Corporate Secretary.
- Ms. Juanita T. Tan Lee is the Treasurer.

External Auditor

The Company has engaged and maintained the services of the auditing firm of SyCip Gorres Velayo & Co. (SGV) with Martin C. Guantes as the partner-in-

charge, as its external auditor since the year 2016. Since their engagement, the External Auditors have consistently provided the Company with latest updates on the latest circulars, rulings or revenue regulations from the Bureau of Internal Revenue, as well as updates on Philippine Reporting Standards for the entire group of companies.

AUDIT AND AUDIT RELATED FEES

The Company incurred audit fees of Php1,500,000.00 for the year 2017 and the same amount for the year 2018. For its quarterly review of financial statements for the years 2017 and 2018, the Company incurred Php1,200,000.00 and Php1,100,000.00, respectively.

DEALINGS IN SECURITIES

The Company adopts and strictly enforces a policy against insider trading on stock transactions by reporting to the SEC and the PSE, within three (3) trading days, any acquisition or disposal of the Company shares, or any change in the shareholdings therein, of its directors and principal officers. As provided in the table below, the following are the current shares held by its Directors:

Name of Director	Direct shares As of end-2017	Direct shares As of end-2018	Indirect shares / Through (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	2,200	NIL	-
Carmen K. Tan	2,200	2,200	NIL	-
Harry C. Tan	3,300	3,300	NIL	-
Michael G. Tan	1,100	1,100	NIL	-
Lucio K. Tan, Jr.	1,100	1,100	NIL	-
Juanita T. Tan Lee	1,100	1,100	NIL	-
Peter Y. Ong	1,100	1,100	NIL	-
Johnip G. Cua	1,000	1,000	NIL	-
Wilfrido E. Sanchez	1,000	1,000	NIL	-
Robin C. Sy	1,000	1,000	NIL	-
Florencia G. Tarriela	1,000	1,000	NIL	-
TOTAL	19,300	19,300	NIL	-

TRADING BLACKOUTS

The Company's policy on trading blackouts covers its directors, officers, advisers, consultants and employees who may have knowledge on material facts regarding matters which may affect the Company. As part of the Company's implementation and strict compliance of trading blackouts, the Corporate Secretary reminds the officers to refrain from trading Company shares during the following blackout periods before the financials are disclosed to the public: (1) for quarterly reports, two weeks before disclosure; and (2) for the year end financials, one month or thirty (30) days before disclosure.

In 2018, there were no instances of any insider trading.

RIGHTS OF SHAREHOLDERS

Good corporate governance is the lifeblood of a successful and respectable business institution. This would naturally attract possible investors who find a company worth believing in. And, for these investors, security of their investments is vital. Hence, their rights must necessarily be made known, respected and upheld by a company wherein they invested.

As the Company values its shareholders as its partners, it practices all efforts to make sure that they are up-to-date and satisfied with its yearly performance. Some of the rights of a shareholder are as follows:

RIGHT TO PARTICIPATE

Shareholders holding at least one-third (1/3) of the subscribed and paid-up capital stock of Company shall have (1) the right to call for a Special Shareholders' Meeting by written notice to the Corporate Secretary at least ninety (90) days before the suggested date of the meeting; and (2) the right to propose items in the agenda of the Shareholders' Meeting, provided the items are for legitimate business purposes and written notice to request inclusion of the same is sent to the Corporate Secretary at least ninety (90) days before the date of the meeting.

At least 30 days before the meetings, the shareholders are sent Notices of the Annual and Special Shareholders' Meeting with sufficient and relevant information to encourage them to personally attend the same. And, should they be unavailable to attend the meeting personally, they will be apprised ahead of time of their right to appoint a proxy and the procedure on how to appoint one.

RIGHT TO VOTE

Shareholders shall have the right to vote on corporate acts of fundamental importance, in accordance with the Corporation Code. These shall include, but shall not be limited to: (1) the election, removal and replacement of Directors should they wish to do so; and (2) the changes or amendments made to the Company's by-laws and Articles of Incorporation. However, for any of the matters submitted to a vote at the Annual Shareholders' Meeting, except on the election of Directors and such other matters where the law requires a different threshold for approval, the affirmative vote of the shareholders present in person or by proxy representing at least a majority of the shareholders present at the Meeting shall be sufficient.

RIGHT TO INSPECT OR EXAMINE CORPORATE RECORDS

Subject to a prior written notice sent to the Corporate Secretary by a stockholder who has not improperly used any information secured through any previous examination of records of the Company, all shareholders shall be allowed to inspect corporate books and records, including minutes of Board meetings, stock registries, annual reports and financial statements.

RIGHT TO INFORMATION

Minority shareholders are furnished, on a timely and regular basis, with relevant information as required by law.

RIGHT TO DIVIDENDS

Shareholders shall have the right to receive dividends out of the Unrestricted Retained Earnings of the Company when the said earnings become in excess of 100% of its Paid-in Capital Stock except:

- When justified by definite corporate expansion projects or programs approved by the Board;
- When the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or
- When it can be clearly shown that such retention is necessary under special circumstances in obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

APPRAISAL RIGHT

All shareholders shall have the right to dissent and demand payment of the fair value of his shares in cases of: (1) an amendment to the Articles of Incorporation will change or restrict the rights of such shareholder or otherwise extends or shortens the term of corporate existence; (2) sale, lease, exchange, transfer, mortgage, pledge, or other disposition of all or substantially all of the corporate property and assets; (3) merger or consolidation; and (4) the Company's decision to invest its funds in another corporation or business or any purpose other than its primary purpose.

STAKEHOLDER RELATIONS

In building a lasting relationship between the Company and its stockholders, employees, customers and trade partners, it is necessary that both parties feel secure with their rights and that all decisions and transactions made by either of the parties must be made with fairness and integrity. Fortunately, the Company's vision and mission is not limited to its own benefit but includes all its partners, ensuring that in all its business decisions, their partners will share its success and likewise benefit from its growth.

SHAREHOLDERS' MEETING AND VOTING PROCEDURES

Shareholders, as part of the Company's practice, are entitled to the Notice of the Stockholders' Meeting at least 28 days prior to the date set for the meeting. However, in its pursuit of good corporate governance, and in its compliance with the requirements of the ASEAN Corporate Governance Scorecard and the Securities and Exchange Commission, stockholders are given a copy of the Notice at least 30 days before the meeting.

In 2018, the Management sent the necessary Notices to the stockholders beginning April 6, 2018 or more than 30 days prior to the meeting set on May 8, 2018.

The Notices sent to the Stockholders included the agenda for the meeting and a statement explaining that a Proxy is required should the Stockholder



CORPORATE GOVERNANCE REPORT



be unavailable to attend the same. Aside from that, a copy of the Definitive Information Statement which provides for the major actions taken by the Board requiring the confirmation of the Stockholders is also attached to the Notice. These actions are done by the Company to ensure that the Stockholders are properly informed of the status and actions of the Company and are given the opportunity to review the performances of the Board and the Management during the previous year, and to further ask questions with regard thereto, if and when necessary.

With regard the stockholders' proposed nominees to the Board, they are encouraged to send the same through the office of the Corporate Secretary for proper consideration by the Nomination and Compensation Committee prior to its meeting held not later than the end of April. Each outstanding common share entitles the registered shareholder to one vote.

DIVIDENDS AND DIVIDEND POLICY

The Company has consistently declared Dividends in accordance with the policy set by the Board.

On March 13, 2018, the Company declared and authorized the distribution of regular cash dividend of Php0.15 per share, and a special cash dividend of Php0.05 per share to all stockholders of record as of March 28, 2018, which were paid out not later than April 11, 2018. The Php0.20 cash dividend per share, or a total of Php2.16 billion is equivalent to 20% of the 2017 attributable net income of Php10.83 billion, consistent with the dividend policy of a 20% pay-out rate.

As the Company strictly adheres to the guidance of good corporate governance to distribute the Dividends within thirty (30) days from the time it is approved and declared, the stockholders were paid on April 11, 2018, twenty-nine (29) days after it was approved by the Board and disclosed to the PSE.

EMPLOYEE RELATIONS

The Company believes that the safety, welfare and career development of its employees are vital in its operations, for without its employees, the Company cannot function as well as it has been for the past few years. Hence, to allow them to feel comfortable and safe in the workplace, the Company has provided open lines of communications and wide health insurance for them as well as their children and beneficiaries and further provided them with scholarships to give them the opportunity to be better versions of themselves.

More importantly, the Company placed an Employee Code of Conduct or Personnel Policies which are strictly observed and implemented all throughout the Company and likewise adopted the "Whistle Blowing Policy" in all its subsidiaries, not only to protect itself but also to protect its partners and employees from any possible yet unforeseen harm or damage.

INVESTOR RELATIONS

The Company maintains open communications with the investing community to promote greater understanding of the Company. Reports to the SEC and PSE are disclosed on time, and are available for viewing and downloading in the Company's website, www.ltg.com.ph. There is also a dedicated Investor Relations Officer.



LTG conducts meetings regularly with investors and analysts to keep them updated on developments with the Company and its subsidiaries. LTG arranges teleconferences and plant visits, and participates in non-deal roadshows and conferences in various locations arranged by several stock brokerages. The Company also communicates through emails and telephone calls.



In 2018, LTG attended nine (9) conferences and one (1) non-deal roadshow (NDR) with seven (7) different brokers in Manila (4), Singapore (6) and Hong Kong (1). During these conferences and NDR, LTG met 153 times with representatives of different funds in one-on-one or group meetings. The Company also had 25 one-on-one meetings as well as 14 conference calls with different funds in its office. The Company accommodates requests for visits to its subsidiaries' facilities from groups of sell-side and buy-side analysts. In 2018, there were visits to Asia Brewery, Inc.'s different plants in Cabuyao, Laguna.

During the 2018 calendar year, LTG conducted four (4) Analysts' Briefings jointly with subsidiary Philippine National Bank (PNB), for Full Year 2017 Results, First Quarter 2018 Results, First Half 2018 Results and Nine Months



2018 Results. The briefing for Full Year 2018 Results was held on March 18, 2019. LTG disclosed the schedule of these briefings to the PSE at least a week before the briefing date. These were attended by analysts from different brokerages and analysts of local funds.

Regular press releases are disclosed to the PSE and SEC and distributed to the media, on quarterly earnings results as well as events that may have a significant impact on the operations of the Company and

its subsidiaries. After the Annual Stockholders' Meeting, a press briefing was conducted where members of the media had access to the President and Chief Financial Officer.



Tan Yan Kee Foundation, Inc.

The companies under LT Group, Inc. and other companies that are majority-owned by the Tan family conduct most of their Corporate Social Responsibility (CSR) activities under the Tan Yan Kee Foundation, Inc. (TYKFI).

Dr. Lucio C. Tan and his siblings established TYKFI in 1986. The Foundation is named in honor of the late Tan patriarch and is governed by a 15-member Board.

The Foundation and its partners pursue projects that focus on four advocacies: Education, Health Services, Social Welfare and the Environment.

EDUCATION

New Scholars for TYKFI-Foundation for Liberty and Prosperity (FLP)

Twenty-one (21) law students who are in their third and fourth year have been awarded the TYKFI-FLP Legal Scholarship Program for school year 2017-2018. The students were from the Ateneo de Manila University (5), University of San Carlos (2), University of Cordilleras, University of the Philippines, University of Santo Tomas (2), University of Cebu, Far Eastern University (2), Polytechnic University of the Philippines (3), San Beda University-Manila, St. Thomas More School of Law and Business and De La Salle University (2).



Sustainable
Development Goal

Aritao Training Program

TYKFI, in partnership with the local government unit of Aritao, Nueva Vizcaya conducted a training on Early Childhood Care and Development (ECCD)—from March 13 to 16, 2018. There were 43 participants which included day care workers, kindergarten teachers and the school head and administrators of Saint Teresita's Academy.



Sustainable
Development Goals

Brigada Eskwela 2018

TYKFI donated materials to repair the Multi Purpose Hall of Natenga Elementary School in Sta. Cruz, Ilocos Sur.



Sustainable
Development Goal

HEALTH SERVICES

Monthly Medical Forum

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 2018 include dermatology; diabetes; sleep disorders; thyroid gland disorders; prostate cancer; and relationship of early childhood experiences and lifelong physical and mental health. Doctors who are Asia Brewery Medical Scholars also provided free consultations during the forums.



Sustainable Development Goal

Medical Mission

A medical mission was sent to Barangay Digidig, Carranglan, Nueva Ecija for the benefit of the farmers and workers of the Legacy Forest Project and their families. More than 150 patients came and had medical check-ups and were given medicines and vitamins. Most of them suffer from hypertension, blurry vision, body pain, breathing difficulties, stomach pain and dizziness.



Sustainable Development Goal

TYKFI-ABI Medical Specialty Scholarship Program

Dr. Tiffany Irish Rentillo completed her one-year fellowship training at the Breast Service and Clinic of Tan Tock Seng Hospital in Singapore.



Sustainable Development Goal



SOCIAL WELFARE

Para sa Marawi (For Marawi)

Employees of companies within the Lucio Tan Group, namely Philippine National Bank, Tanduay Distillers, Inc., Philippine Airlines and TYKFI, put together donations from employees and the companies, from as far as Manila and Cagayan de Oro. These were distributed to Marawi evacuees at the Mindanao State University gym on January 11, 2018.



Sustainable Development Goal

PAL Engineers Conduct Fire Safety Training for TYKFI Workers

On January 26, 2018, security and safety engineers of Philippine Airlines (PAL) provided fire safety training to the foresters and farmers of the TYKFI field office in Nueva Ecija.



Sustainable Development Goal

ENVIRONMENT

The Lucio C. Tan Legacy Forest Project on Its Fourth Year

The project started in 2014 and to date, over 600 hectares have been planted in the UP Land Grant in Laguna and Quezon while another 279 hectares were planted in Carranglan, Nueva Ecija. Aside from providing indigenous people jobs by planting trees, the project also provides livelihood training programs by teaching scientific ways of producing vegetables (including organic) and ornamental plants.



Sustainable Development Goals



CORPORATE SOCIAL RESPONSIBILITY

ASIA BREWERY, INC.





Sustainable Development Goals





Clean Water for Victims of Calamities

In January 2018, Mayon Volcano in Albay erupted and caused nearby residents to evacuate. ABI donated 1,800 boxes of 6-liter and 1,590 cases of 350ml bottled water to Sto. Domingo, Ginubatan and Camalig, Albay. Meanwhile, an Agua Vida mobile water station was sent to Mauraro Elementary School in Legaspi, Albay where 500 families or approximately 1,700 people were provided access to clean water.


On September 20, 2018, a landslide trapped residents and workers of a quarry in Naga, Cebu. ABI, together with its sister companies PMFTC, PNB and TDI, donated clean water for the victims.

Bottled water donated by the LT Group are with the "not for sale" white label.



In House Training Programs

In 2018, ABI conducted nine in-house training programs to its employees.

Courses Offered	Total Man-hours	Total Sessions (batches)
ONE: Orientation of New Employees	5,660	23
PAPU-G: Leading & Coaching	1,728	10
Presentation Skills Workshop	1,424	9
Self-Mastery: 7 Habits of Highly Effective People	660	6
Six Thinking Hats	272	3
Situational Leadership	864	2
Train the Trainers	241	2
5S+1 Good Warehousing Practices	200	1
Work Effectiveness	104	1
TOTAL	11,153 man-hours	57 batches conducted



Sustainable Development Goal

Brigada Eskwela and Balik Eskwela Donation Drive

This is an annual activity where the Company donates 250 sets of school supplies to students of selected elementary schools. The Company also donated its products like Summit bottled water and Vitamilk soymilk to the schools. In 2018, ABI donated to 8 elementary schools located in Laguna (6) and Davao City (2).




Sustainable Development Goal




Hiring of Next of Kin

Under the Collective Bargaining Agreement, in case of death, disability or retirement, the next of kin of that employee shall be hired by the Company as long as the next of kin is qualified. To date, 41 "next of kin" have been hired, with four employed in 2018.



Sustainable Development Goal



Keep Me Clean: Proper Solid Waste Disposal and Management

In October, the Loma Elementary School in Binan, Laguna was given bookshelves made of recycled plastic crates as well as color-coded trash bins. Grade 3 students were given a lecture on proper solid waste disposal.




Sustainable Development Goals



Training Program for Future Employees

In November 2018, ABI subsidiary, Interbev Philippines, Inc. in Pampanga, signed an agreement with Our Lady of Mt. Carmel where financially challenged students would be trained in partnership with Dualtech for possible future regular employment with the Company. Six students are expected to train for 18 months under the program.




Sustainable Development Goals



Other CSR Programs

The Annual Celebration of Nutrition Month 2018 had the theme "Ugaliing Magtanim, Sapat na Nutrisyon Aanihin" (Make Planting a Habit, Sufficient Nutrition You Will Reap). A feeding program and lecture on health and proper nutrition were conducted at the Children's Joy Foundation in Calamba, Laguna.

Celebrated Grandparents' Day at the Bahay ni Maria and Mary Mother of Mercy which serve as homes for abandoned elderly and children with special needs. The residents were provided with a month's supply of Absolute bottled water and hygiene kits.



Sustainable Development Goal

Absolute Mommy Welfare Month

This is an annual activity where Absolute Distilled Drinking Water supports first-time mothers and their newborns as they go through postnatal care and wellness. On its 4th year, Absolute distributed 3,800 wellness kits in various hospitals in the Greater Manila Area (GMA), North Luzon, South Luzon and Cebu from September to October.



Sustainable Development Goals

Summit Partnership with Philippine Olympic Committee (POC)

Since 2016, Summit Natural Drinking Water has been supporting the POC which represents the Philippines in international sports competitions. In 2018, Summit provided Php400,000 worth of product support.



Sustainable Development Goal



HERO (Help, Educate and Rear Orphans) Foundation Donation

ABI's Cobra Energy Drink continues to support the HERO Foundation which provides support and educational stipends to orphans of military personnel. ABI has committed to donate Php10 million over a five-year period from 2016 to 2010.



Sustainable Development Goal



Tree Planting Activities of ABI Employees in El Salvador, Misamis Oriental

In July, employees participated in the tree planting activity headed by the Department of Environment and Natural Resources in Barangay Pagalungan, Cagayan de Oro City. More than 300 trees were planted by ABI employees.



Meanwhile, the employees also planted 113 trees in the ABI compound in the same month.



Sustainable Development Goal

River Clean-Up by Employees of Pampanga Plant

In November 2018, employees participated in the clean-up of the Quitangil River in Mabalacat City, Pampanga. They collected 28 sacks of trash.



Sustainable Development Goal

Coastal Clean-up

In September 2018, employees of ABI's plant in Misamis Oriental participated in the coastal clean-up in Poblacion, El Salvador City. 180 kilograms of plastic and discarded clothes were collected.



Sustainable Development Goals

CORPORATE SOCIAL RESPONSIBILITY

ETON PROPERTIES PHILIPPINES, INC.

Creating Homes for Hope

In September 2018, Nueva Vizcaya was ravaged by typhoon Ompong, which caused extensive damage to the province's roads, agriculture, infrastructure, and its people. Subsequently, the province was placed under a state of calamity.

As a property developer, Eton Properties understands the importance of having a home. In order to aid typhoon victims in their journey to recovery, the Company provided special housing assistance.

Four (4) beneficiaries were selected from a pool of Tan Yan Kee Foundation Inc. (TYKFI) high school scholars, who belong to farmer families in Aritao, Nueva Vizcaya. By rebuilding their homes, Eton Properties aims to also help them rebuild their lives, and enable them to face the future with strength

House of
Anielyn Domingo
14 years old



Before



After

Before



After



House of Krislyn Alap
13 years old



Before

House of
Sherma Algaba
15 years old



After



Before

House of
Joey Dayawon
14 years old



After



Sustainable
Development Goals

PMFTC INC.

Child Labor Prevention Program

The program's objective is to progressively eliminate child labor in selected tobacco growing areas where PMFTC operates. Activities include community or school orientations to raise awareness, organizing and strengthening tasks forces that will monitor child labor incidents, summer school programs, and the barangay certification assistance program. In 2018, there were 6,350 children had 100% attendance (with the exception for reasonable excuses for absences). The program is targeting 100 local barangay units that will be assisted in assessing their classification or status based on the Department of Labor and Employment's 'Child-Labor Free Barangay' Certification.



Sustainable
Development Goals



Second Tobacco Industry Forum

PMFTC, together with the other tobacco industry players, gathered for the Second Philippine Tobacco Industry Forum in 2018. The said Forum, which also took place on the occasion of the National Tobacco Administration's 31st anniversary, promulgated the Tobacco Industry Roadmap. This set a blueprint and a long-term development plan for the industry. Technical Working Groups were established to ensure sustainability and monitor the implementation of plans and programs as outlined in the Roadmap. The goal is to improve farmers' income and work toward eradicating poverty through the development of a globally competitive and inclusive industry with a fair share of benefits.



Sustainable
Development Goals

Women's Month and Pride Month Lecture Series

Since 2014, PMFTC has been conducting a series of lectures on Inclusion & Diversity to explore ways of developing a workplace that promotes diversity and acknowledges that strength lies in working with differences in worldview, culture, gender, and age. These highlight gender equality.



Sustainable
Development Goals



OPLAN BES: Bisita Eskwela I am STRONG

The program aims to educate the youth on the importance of embracing wellness and a healthy lifestyle by encouraging physical activities, adapting good hygiene habits and avoiding undesirable behaviors.

Early in 2018, the Company officially inked a partnership with Philippine National Police (PNP) to collaboratively implement "OPLAN BES: Bisita Eskwela I am STRONG" as an extension of the Youth Smoking Prevention component of Republic Act 9211 (Tobacco Regulation Act of 2003). This joint project of PNP/Bisita Eskwela and PMFTC/I AM STRONG was able to inspire Filipino children nationwide. It reached around 30,000 children in 2018.



EMBRACE, PMFTC's CSR Program

The program supports access to quality education or vocational training, income-generation initiatives, the promotion of women's leadership roles in society and disaster preparedness and response. These are conducted nationwide, in different communities identified by our partner stakeholders.



Bridging the Gap through Educational Assistance among Youth Scholarship Program

BRIDGE is a scholarship program designed to support and inspire students to value, appreciate and make the most of their education. It is open to students pursuing degrees in Agriculture or Agriculture-related courses. The scholarship provides the students with financial assistance to defray tuition and miscellaneous expenses. This has been a project of PMFTC in its host communities since 2015. As of September 2018, there were 30 scholars in the program.



PHILIPPINE NATIONAL BANK



Christmas Gift-Giving Activities

In partnership with the Korean Chamber of Commerce Philippines (KCCP), PNB gave gifts to 300 needy families in Malate, Manila on December 15, 2018. Meanwhile, around 150 children of the PNB head office's security guards, messengers, service masters and drivers were given gift packs on December 21, 2018.



Health and Wellness Lecture Series for PNB Employees

In partnership with health care provider, ValuCare, and with speakers from various health organizations, wellness lectures were conducted for head office employees. Also, over 20 e-mail wellness bulletins and newsletters were disseminated to employees nationwide to keep them abreast with relevant health topics (i.e. stress management, lifestyle diseases, "deskercise", and nutrition).



Coastal Cleanup

Over 70 PNB employees from the head office participated in the 2018 Coastal Cleanup Activity organized by Department of Environment and Natural Resources and SM Supermalls at the Central Park, SM by the Bay, Pasay City on September 22, 2018.



CORPORATE SOCIAL RESPONSIBILITY

Kiddie Business Camp for Our Lady of Sorrow Outreach Foundation (OLSOFI) Children

Thirty PNB employees participated in a half-day outreach program in December for children from depressed barangays in Pasay City. Thirty children learned how to make bead bracelets and graham balls to help earn money for their school needs, as well as the basics of entrepreneurship and money management.



Sustainable Development Goals



Relief Operations for Bulacan Families

On August 23, 2018, the Bank's North Luzon Area of the Retail Banking Group distributed relief goods worth Php100,000 to 300 families in Meycauayan, Bulacan that were affected by Typhoonarding.



Sustainable Development Goal



Upcycling Program for Social Enterprise with Caritas Manila

PNB and Philippine Airlines donated old tarpaulins and brochures to Caritas Manila that were upcycled into functional items such as wallets, tote bags, bag tags, and shoe bags by the women and mothers of Caritas Manila's partner communities in Metro Manila to provide them with a source of livelihood.



Sustainable Development Goals



Bloody Good Feeling! A Bloodletting Program

Over 70 PNB employees volunteered and successfully donated blood during the two-day activity on December 10 to 11, 2018 which was conducted in partnership with the Philippine Red Cross.



Sustainable Development Goal



Financial Literacy Sessions for Children and Youth

At the Tapaz National High School in Tapaz, Capiz in October 2018 and the St. Scholastica College, Manila in December 2018, PNB conducted financial literacy sessions to grade school and high school students to teach them good money management habits. It is part of the Bank's My First Savings Account project.



Sustainable Development Goal



TANDUAY DISTILLERS, INC.

Salanglanka River Cleanup

On November 26, 2018, employees of the Cabuyao, Laguna plant participated in the clean-up of the Salanglanka River, with the Cabuyao River Protection Advocates (CaRPA) and the City Environment and Natural Resources Office (CENRO).



Sustainable Development Goal



Policy on Diversity and Inclusion

To promote diversity and inclusion in the workplace, a policy on diversity and inclusion was finalized by the Bank in November 2018.



Sustainable Development Goals

Zumba for Workers' Health and Wellness

Since August of 2018, employees in the Cabuyao plant have been joining the Zumba hour everyday at noontime for better health and wellness.



Sustainable Development Goal

Lecture on Diabetes Mellitus

On July 27, 2018, a lecture on diabetes mellitus was conducted in the Cabuyao plant by Dr. Danielle So from Value Care Health Systems.



Sustainable Development Goal

Wellness Assessment and Weight Loss Challenge

On August 24, 2018, Herbalife conducted a wellness evaluation and gave personalized meal plans to interested employees in Cabuyao. A weight loss challenge was launched after.



Sustainable Development Goal

Fire Safety Workshops

On July 8, 2018, Asia Brewery's Fire Brigade conducted a Fire Safety Workshop for some of TDI's Cabuyao employees. In turn, TDI's Fire Brigade and Safety Department conducted a fire safety seminar for other employees on October 18.

Meanwhile, subsidiary Asian Alcohol sent some personnel to attend the Basic Firefighting Training Course at the Amity Public Safety Academy on September 17 to 21, 2018.



Sustainable Development Goal

Adopt-an-Estero/Water Body Program

On September 16 and November 18, 2018, TDI-Murcia conducted a clean-up of the Cabungan-an Creek in Murcia, Negros Occidental.

Meanwhile, Asian Alcohol signed in August 2017, a Memorandum of Agreement with the Department of Environment and Natural Resources – Environmental Management Bureau of Region 6 for the quarterly surface clean-up of the Canjusa Creek in Pulupandan, Negros Occidental.



Sustainable Development Goals

Voluntary Blood Letting Activities

On July 2 and December 17, 2018, employees of TDI-Murcia participated in the voluntary blood letting sessions of the Philippine Red Cross at the plant's premises. On October 13, a similar blood letting activity was conducted in TDI's El Salvador, Misamis Oriental plant.

Meanwhile, subsidiary Asian Alcohol in Pulupandan, Negros Occidental has an annual blood letting activity since 2016. This activity builds up the Company's supply in local blood banks.



Sustainable Development Goal

CORPORATE SOCIAL RESPONSIBILITY

Donation of Garbage Bins of TDI-El Salvador Plant

In 2018, the TDI El-Salvador plant made a number of donations of waste segregation bins.

A set was donated to Opol Central School while 10 sets were donated to the Department of Education – Region X. Another three sets were donated to the San Francisco de Asis Elementary School. Scrap materials were used for making these segregation bins.



Sustainable Development Goals

Donation of Plastic Drums to the Philippine National Police (PNP)

TDI – El Salvador responded to the request of the Philippine National Police (PNP) – Misamis Oriental for ten plastic drums for use in their project for enhancing camp security measures.



Sustainable Development Goal

Donation of Steel Police Outpost

TDI-El Salvador donated a steel structure for an outpost of the Philippine National Police in March 2018. Scrap materials were used in constructing the outpost.



Sustainable Development Goal

International Coastal Clean-Up Day

On September 14, 2018, TDI-El Salvador participated in the coastal clean-up of Macajalar Bay, Misamis Oriental, together with other stakeholders. Ten bags of garbage were collected, weighing approximately 115 kilograms.

Meanwhile, Asian Alcohol participated in the clean-up day in the Pulupandan, Negros Occidental area.



Sustainable Development Goals

Active Fire Responses

TDI-El Salvador's Fire Brigade helped put out three incidents of fires in 2018. These were in Barangay Bulisong on February 9, Barangay Tambaling in May and Barangay Alo on October 13.

TDI subsidiary, Asian Alcohol, assists the Bureau of Fire in Bago City in responding to fire incidents in the Municipality of Pulupandan. The Company also assists the Municipal Disaster Risk Reduction and Management in conducting Fire and Earthquake Evacuation Drill and Disaster Preparedness Training for local schools and institutions.



Sustainable Development Goals

Christmas Gift Giving

TDI subsidiary Absolut Distillers, has an annual gift giving tradition, for residents in the communities around its plant in Batangas. In 2018, 70 bags were distributed.



Sustainable Development Goal

Emergency Preparedness

From February 22 to 24, 2018, some of Asian Alcohol's employees were given training on life saving first-aid techniques to assist people during emergency situations.



Sustainable Development Goal

Medical Mission

Since 2016, Asian Alcohol conducts a quarterly medical mission for residents in selected barangays (villages) in the Pulpandan, Negros Occidental area, where the plant is located. Aside from the check-ups, up to 150 persons per barangay are given free medicines. Barangays covered are Tapong, Canjusa, Zone 6 and Zone 5.



Sustainable Development Goal

Operation Tuli (Circumcision)

In April 2018, Asian Alcohol conducted Operation Tuli in the Pulpandan Elementary School for boys aged 7 to 16 years old. This is the second year that Asian Alcohol sponsored this activity.



Sustainable Development Goal

Feeding Program

From 2016 to the present, Asian Alcohol conducts a quarterly feeding program in selected barangays (villages) in the Pulpandan, Negros Occidental area. Up to 300 residents per barangay are given meals. Barangays covered are Tapong, Canjusa, Zone 6 and Zone 5.



Sustainable Development Goal

Work Immersion Program

Asian Alcohol has started an immersion program where K-12 students can experience working in an alcohol distillery. Partner schools from the province of Negros Occidental are University of Negros Occidental-Recoletos, Negros Occidental High School, Enriqueta Montilla de Esteban Memorial High School and Systems Technology Institute - West Negros University.



Sustainable Development Goal

HIV/AIDS Awareness, Violence Against Women and Their Children (VWAC) and Drug Symposium

On September 21, 2018, Asian Alcohol conducted an HIV/Aids awareness seminar and started implementing an HIV/AIDS Prevention and Control in the Workplace Program.

During the same day, the Philippine National Police in Pulpandan also gave a seminar on VWAC and a drug-free workplace; and taught basic arrest and defense techniques to the Company's security guards.



Sustainable Development Goal



SUSTAINABILITY

ASIA BREWERY, INC.

Use of Recycled Glass and Volcanic Feldspar in Manufacturing Bottles

ABI's glass plant uses cullet in producing glass bottles. In 2018, the Company used 72.2 thousand megatons of cullet, accounting for 61% of the raw materials used.

Since 2010, the plant also uses lahar, the dried-up volcanic mudflow from the eruption of Mt. Pinatubo in 1990, as an alternative raw material. In 2018, about 56% of the feldspar used in glass manufacturing was replaced by lahar, equivalent to 3.5 thousand metric tons.



Sustainable Development Goals

Annual Recognition of Kaizen Projects

In March 2018, ABI recognized 85 Kaizen projects that employees completed in 2017. This promotes continuous learning and improvement among ABI employees.



Sustainable Development Goals

Recycled Glass as Partial Replacement of Fine Aggregates in Structural Concrete

The powdered glass waste from the plant are used as aggregates in concrete. These are used for pavements and walkways within the Cabuyao, Laguna plant premises. A total area of 450 square meters of the glass plant's pavements and walkways will utilize 145 tons of glass waste.



Sustainable Development Goals

New Configuration for Printing Glass Bottles to minimize Packaging Waste

In 2018, the glass plant was able to save 267 rolls of polypropylene (nylon) straps by changing the configuration on how plain bottles were packed for the printing process. This is equivalent to 2,777 kilograms of nylon straps.



Sustainable Development Goals

Go Paperless!

The automation process in the manufacturing support group of ABI enabled the Company to save 127 reams of paper in 2018, equivalent to 7.6 trees.



Sustainable Development Goals

Conversion of Forklifts' Fuel to LPG from Gasoline

At ABI's Cabuyao, Laguna compound, 20 forklifts were converted to use liquefied petroleum gas (LPG) instead of gasoline. This improved productivity and reduced the maintenance costs, as well as saved on the distance that the forklifts had to travel to get fuel to and from the gas refilling stations. This generated savings of over Php5 million.



Sustainable Development Goals

Materials Management

At the ABI Cabuyao plants, waste was sorted, classified and sold to third parties. This saved 2,800 metric tons of assorted metals, plastics, paper and wood from being disposed to landfills, as well as 12,843 pieces of reusable items such as plastic sacks, plastic and metal containers, used tires and oil, plus 36 units of vehicles and forklifts.



Sustainable Development Goals

ISO 50001 for Beverage Manufacturing Units

ABI appointed an energy committee in April 2017 to improve the Cabuyao beverage plants' energy efficiency by 20% by 2020 and achieve ISO 50001 certification. On December 7, 2018, the plants were audited by DQS Philippines and recommended the ISO 50001 certification, making ABI the first food and beverage manufacturing company in the Philippines to be certified.



Sustainable Development Goal

Optimization of Low Pressure Air Compression (LPAC) System in Cabuyao Plants

The rehabilitation of the 230 kilowatt and 392 kilowatt variable speed drive compressors was completed on November 15, 2018. This will reduce energy consumption by 45%.



Sustainable Development Goals

Energy Drink Pampanga Plant Upgrade

The Wye Delta Control of one of the compressors was replaced by Variable Frequency Drive motor control. Since its operation in February 2018, this has saved 785 megawatt hours and reduced the carbon footprint by 431 tons of CO₂.



Sustainable Development Goals

Improvements in the Beverage Plant in Cabuyao

The following were done:

- Refrigeration system upgrade with energy optimization through line cooling, use of high efficiency compressors, chilled water cooling for rooms and a dedicated refrigeration system was installed. Since June 2018, this has resulted in savings of 1,876 megawatt hours and has reduced the carbon footprint by 1,000 tons of CO₂.
- Installation of bottle conveyor from existing blower to two production lines of the plant. This was implemented in December 2018 and is expected to save 27 megawatt hours and reduce the carbon footprint by 14 tons of CO₂ per month.



Sustainable Development Goals



Improvements in Cabuyao Coal Fired Boiler System

The boiler system is manually operated and previously, there was no defined scheme on how much steam would be supplied to the end-users, wasting coal as the steam produced did not match the users' requirements. A matrix was established and implemented starting April 2018. From April to November 2018, 807 tons of coal was saved and the carbon footprint was reduced by 2,018 tons of CO₂.



Sustainable Development Goal

Various units of ABI participated in Earth Hour

Earth Hour is celebrated every last Saturday of March where participants are encouraged to switch off lights from 8:30 to 9:30 in the evening. In 2018, the various units of ABI saved 204,630 watts of electricity, 25% more than 2017's 152,435 watts.



Sustainable Development Goal

ISO 9001:2015 Certification for Packageworld's Metal Operations



The metal packaging division of ABI was recommended for ISO 9001:2015 certification in December 2018 after undergoing pre-assessment audit in September and stage 1 audit in October by the TUV-SUD PSB Philippines, Inc. This certification means that the organization has the ability to consistently provide products and services that meet customer and regulatory requirements.



Sustainable Development Goal

Water in Glass Bottles

ABI launched Summit Still and Summit Sparkling Water in late 2017. As of the end of 2018, the products are available in 16 resorts and hotels, 11 restaurants, ten bars, three country clubs and 24 major retail accounts with 206 stores nationwide. The Company has committed to give a portion of sales proceeds to the World Wildlife Fund (WWF).




Sustainable Development Goals



SUSTAINABILITY


PMFTC INC.



Sustainable Development Goals

Green Electricity Sourcing (Renewable Energy) for the Reduction of CO₂ Emission


In December 2017, PMFTC started a project that aims to tap renewable energy from geothermal plants for its Batangas and Marikina plants which have significantly lower CO₂ footprints than coal-fired power plants. In 2018, PMFTC used 75,115 MWH of Certified Green Electricity and reduced CO₂ emissions by 46,143 tons as the two plants used 100% renewable electricity.




Sustainable Development Goals

Photovoltaic Farm for Batangas Factory (Solar Panel)

In November 2018, a 2.5 MW photovoltaic farm was installed in the Batangas plant to enable the use of solar energy during day time instead of conventional electricity. Over a year, the project aims to generate 3,370 MWH and reduce CO₂ emission by 2,070 tons.


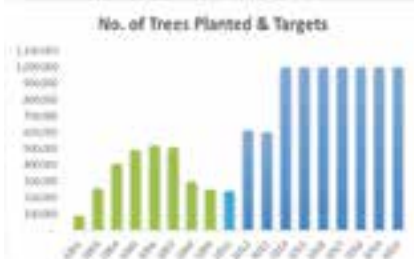




Sustainable Development Goals

Reforestation in Ilocos Sur

This project is being implemented from 2016 up to 2020 in Sta. Cruz, Ilocos Sur. It aims to plant one million trees per year, with a cumulative target of 8.4 million trees planted by 2020. The Company engages farmers to plant fuel wood species for traceability and sustainability of wood for curing tobacco.




Sustainable Development Goals

I-Care Program

This is a behavior observation program that enables all employees to provide feedback to anyone in the organization, reminding them to be safe always.







Sustainable Development Goals

Barn Upgrade for Fuel Wood Efficiency

An ongoing program that started in the fourth quarter of 2013 and is slated to finish by end-2020, the project aims to improve the traditional curing barns in Sta. Cruz, Ilocos Sur to increase fuel wood efficiency by 22% versus the 2014 baseline. Upgrades are done by improving one or more of the following barn parts: installing wall and roof insulations using recycled C48 cartons (heavy duty corrugated cardboard boxes used for shipping tobacco), installing venture furnaces, heating pipes, chimneys, dampers, vents and windows. By the end of 2018, 100% of the 2,700 barns had been upgraded. This is part of the goal to reduce cumulative CO₂ emissions by 30% in 2020 versus the 2010 baseline.







Sustainable Development Goals

Biomass Utilization

In the leaf facility in Claveria, Misamis Oriental, a biomass boiler is used for curing operations. It will reduce the cost of curing, as well as reduce CO₂ emissions. This was started in August 2015.






Sustainable Development Goals

Redesign of Compressor Cooling System

In August 2018 at the Batangas plant, the compressor cooling system that used chilled water through a heat exchanger was redesigned to use water from the cooling tower to directly provide cooling to the air compressors. This is expected to reduce energy consumption by 434 GJ over a one-year period.





Sustainable Development Goals

Mission Zero Level Up

This is a safety ownership program that describes key milestones (basic condition & safety leadership) to achieve the interdependent safety culture within the Company.



Chiller Coefficient of Performance (COP) Improvement

In the Batangas plant, the chiller parameter settings were studied and optimized to improve machine performance. Target is to reduce energy consumption by 2,072 GJ over a one-year period from June 2018 to May 2019.



Sustainable Development Goals

Chilled Water Pump Improvement

In Batangas, the secondary chilled water pump was converted to an automatic system by reprogramming the programmable logic controller (PLC) and commissioning the variable frequency drive (VFD). This reduced energy consumption by 459 GJ over the year.

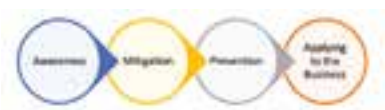


Sustainable Development Goals



Road to Zero Single Use Plastic

PMFTC aims to be the first Philip Morris International affiliate with zero single-use plastic waste by December 2019. Culture building programs on efficient plastic use and waste management to ensure sustainability toward the preservation of the environment are being implemented in the Marikina, Batangas and Claveria facilities. This will reduce total plastic waste by 10 % by end-2019 from 2018.



Sustainable Development Goals

Fleet Safety Leadership Workshop

Conducted for personnel in the Leaf and Sales Offices, the workshop is aimed to build an understanding for leaders to increase safety awareness and their required contribution in improving PMFTC's Fleet Safety Performance. In 2018, 255 managers were trained.



Sustainable Development Goals

1001 Small Interventions

Simple yet impactful interventions that will let employees remember to be safe all the time. Because when it comes to Safety...it's #Neverenough.

Improvised Tool:
Identify! Collect and Drop!



Sustainable Development Goals

Fleet Safety "Medal Of Allegiance"

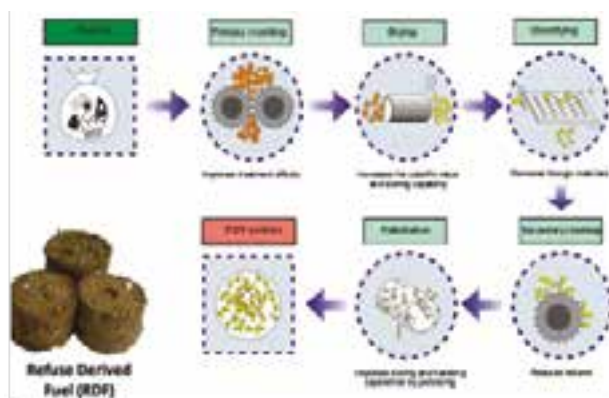
Team recognition program that encourages drivers to demonstrate safe driving behavior and skills. This resulted in a 33% reduction in collision incidents to 46 in 2018 from 69 in 2017.



Sustainable Development Goals

Landfill Waste Diversion

Waste from the Marikina and Batangas plants were diverted from landfills and made into refuse derived fuel; and composted and incinerated with energy recovery. In 2018, none of the waste from the operation of the two plants were sent to landfills.



Sustainable Development Goals



SUSTAINABILITY

PHILIPPINE NATIONAL BANK

Reduction of Energy Consumption at Head Office

There are year-round efforts at the head office in Pasay City aimed at reducing energy consumption. These include the upgrading of chillers, replacing the 20-year old cooling coils of the air handling units (AHU) and replacing conventional bulb and tube lights with light-emitting diodes (LED). This translated to savings of Php10.6 million per year.



Sustainable Development Goals



Reduction of Water Consumption

At the Bank's head office, water consumption was decreased by reducing the volume of water used to flush toilets and urinals, replacing three leaking units of hydropneumatics tanks, as well as replacing leaking water valves, defective faucets, urinal and water closet flushers. This resulted in Php208,000 in annual savings.



Sustainable Development Goals



Environmental, Social and Governance (ESG) Cognizant Lending

The Bank implemented a financing program to support economic development through sustainable means. To date, Php56 billion worth of loans have been lent out to eco-friendly businesses such as a glass packaging plant, green residential buildings and projects that are environmentally compliant such as toll roads and power plants, the expansion of the Clark International Airport and the construction of an athlete's village in Laguna.



Sustainable Development Goals



TANDUAY DISTILLERS, INC.

100 KLPD Bioethanol Plant

Absolut Distillers operates a 100 Kilo Liters per Day (KLPD) bioethanol plant in Lian, Batangas. It sold 36.3 million liters of bioethanol in 2018.



Sustainable Development Goals



Concrete Hollow Blocks from Boiler Operation Waste

In the Batangas plant, coal and fly ash waste from boiler operations are mixed with sand and cement to produce concrete hollow blocks. An average of 335 pieces are produced per day. These hollow blocks were used in the plant's expansion in 2011 to 2012, and are currently sold to contractors.



Sustainable Development Goals



Digester Tanks

The digester tanks in the plant in Lian, Batangas generated 13.5 million cubic meters of biogas in 2018. This lessened the plant's coal fuel consumption and decreased its carbon footprint.



Sustainable Development Goals



Carbon Dioxide Recovery Plant

The Batangas plant has a CO₂ recovery system designed to produce food grade CO₂ from the raw CO₂ collected from the fermentation of molasses. A portion of this liquid CO₂ is then solidified and sold as dry ice. This helps protect the environment with the collection of excess CO₂ that would otherwise be released to the atmosphere. In 2018, Absolute Distillers sold 565 thousand kilos of dry ice.



Sustainable Development Goals



13

Climate Action

7

Affordable and Clean Energy

Sustainable Development Goals

Two-Megawatt Solar Power Plant

TDI subsidiary Absolut Distillers, Inc., operates a 2 MW solar power plant in Lian, Batangas. In 2018, it generated 2.4 million kilowatt hours (kWh) of electricity.



13

Climate Action

11

Sustainable Cities and Communities

Sustainable Development Goals

Organic Liquid Fertilizer Donated to Farmers

Absolute Distillers is the first distillery to be recognized, registered and licensed by the Fertilizer and Pesticide Authority to use distillery effluent as fertilizer. The Company hauls and donates this fertilizer to farmers in the area. In 2018, 378 thousand tons of fertilizer were donated to 153 farmers.

12

Responsible Consumption and Production

11

Sustainable Cities and Communities

7

Affordable and Clean Energy

Sustainable Development Goals

Bunker Fuel Displacement with Biogas

TDI subsidiary, Asian Alcohol, in its plant in Pulupandan, Negros Occidental, produces biogas from distillery slops that are pumped from the equalization pond into anaerobic digesters to biodegrade. The biogas produced by the digesters are then fed to the boiler which displaces bunker fuel consumption. From July 2017 to end-2018, 650,000 liters of bunker fuel have been replaced by biogas.

12

Responsible Consumption and Production

11

Sustainable Cities and Communities

7

Affordable and Clean Energy

Sustainable Development Goals

Shift to LED Streetlights

Starting October 2018, Asian Alcohol replaced 13 sets of 150-watt high-pressure sodium bulbs with 56-watt road luminaire LEDs in the Gate 2, administration building and warehouse in its Pulupandan, Negros Occidental facility. Reduction in CO₂ emissions from this is estimated at 0.66 tons for 2018.

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, 2018, 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 12th day of March 2019

**INDEPENDENT AUDITOR'S REPORT**

SyCip Gorres Velayo & Co.
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Fax: (632) 819 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

The Board of Directors and Stockholders
LT Group, Inc.

Opinion

We have audited the consolidated financial statements of LT Group, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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 9, Financial Instruments

On January 1, 2018, the Group adopted PFRS 9, *Financial Instruments*, which replaced PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Group used the modified retrospective approach in adopting PFRS 9.

1. Classification and measurement of financial assets

As at January 1, 2018 (the transition date), the Group classified its financial assets based on its business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted in transition adjustments that increased retained earnings and other comprehensive income by P573.4 million. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria. The Group's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the consolidated financial statements.

The disclosures in relation to the adoption of the PFRS 9 classification criteria are included in Note 2 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the Board-approved business models for the Group's portfolios of financial assets. We compared the parameters set within the business models with the portfolio and risk management policies of the Group. For significant portfolios, we assessed the frequency and relative amounts of sales in the past, understood how the business performance is measured and evaluated performance measurement reports.

We checked the transition adjustments and reviewed the disclosures made in the consolidated financial statements.

2. Expected credit losses (ECL)

The Group's adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment and estimation. 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 (called overlays) in calculating ECL.

The application of the ECL model increased the allowance for credit losses and other comprehensive income as of January 1, 2018 by P2.47 billion and P0.06 million, respectively. Provision for credit losses of the Group in 2018 using the ECL model amounted to P1.69 billion.

Refer to Notes 2 and 32 to the consolidated financial statements for the disclosures on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

Audit Response

We obtained an understanding of the Board-approved methodologies and models used for the Group's different credit 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 forward-looking information used for overlay through statistical test and 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 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 checked the transition adjustments and reviewed the disclosures made in the consolidated financial statements. We involved our internal specialists in the performance of the above procedures.

Recognition of deferred income tax assets

As at December 31, 2018, the deferred tax assets of Philippine National Bank (PNB, a subsidiary), amounted to P6.63 billion. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and subject to significant judgment and estimation, 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 involved our internal specialist in interpreting the tax regulations, testing the deductible temporary differences identified by PNB and the applicable tax rate. We reviewed the management's assessment on 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 to the historical performance of PNB. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Valuation of net retirement benefits liability

PNB has a defined benefit retirement plan covering all regular employees. The valuation of PNB's net retirement benefit liability amounting to P1.22 billion as of December 31, 2018 required the significant involvement of a professionally qualified actuary whose calculations depend on certain assumptions, such as prospective salary increase and employee turnover rates, as well as discount rate, which have a material impact on the valuation results.

The disclosures in relation to net retirement benefit liability are included in Note 23 to the consolidated financial statements.

Audit response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by PNB's professionally qualified actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rates against PNB's human resources data, and the discount rate and mortality rate against available market data. We inquired from management about the basis of the salary rate increase and compared it against PNB's forecast.

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, 2018, 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, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is 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. 7332557, January 3, 2019, Makati City

March 12, 2019



LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in Thousands)

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P176,496,004	P174,024,418
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	10,783,021	6,518,419
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	9,256,885	–
Available-for-sale (AFS) investments [Notes 7 and 17]	–	2,544,589
Loans and receivables (Notes 8 and 17)	245,934,405	204,622,577
Inventories (Note 9)	13,108,204	13,365,089
Due from related parties (Note 22)	2,028,632	2,028,625
Other current assets (Note 10)	9,105,700	12,471,592
	466,712,851	415,575,309
Assets of disposal group classified as held for sale (Note 37)	8,238,623	–
Total Current Assets	474,951,474	415,575,309
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	347,753,938	307,622,788
Financial assets at FVTOCI (Notes 7 and 17)	48,094,583	–
AFS investments (Notes 7 and 17)	–	70,664,823
Financial assets at amortized cost (Notes 7 and 17)	99,772,711	–
Held-to-maturity investments (Notes 7 and 17)	–	26,732,182
Investments in associates and joint ventures (Note 11)	20,314,141	17,230,925
Property, plant and equipment (Note 12):		
At appraised values	60,317,761	36,214,947
At cost	7,802,933	6,990,286
Investment properties (Note 13)	30,318,901	28,890,793
Deferred income tax assets - net (Note 29)	1,899,044	1,460,889
Other noncurrent assets (Note 14)	6,551,322	5,712,747
Total Noncurrent Assets	622,825,334	501,520,380
TOTAL ASSETS	P1,097,776,808	P917,095,689
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	P672,342,296	P588,394,301
Financial liabilities at FVTPL (Notes 16 and 21)	470,648	343,522
Bills and acceptances payable (Note 17)	60,549,245	36,634,337
Accounts payable and accrued expenses (Note 18)	22,516,482	22,023,972
Income tax payable	1,012,898	1,113,799
Short-term debts (Note 19)	2,050,000	1,550,000
Current portion of long-term debts (Note 19)	90,829	114,681
Due to related parties (Note 22)	80,199	56,842
Other current liabilities (Notes 20 and 38)	8,616,177	15,166,369
	767,728,774	665,397,823
Liabilities of disposal group classified as held for sale (Note 37)	7,237,811	–
Total Current Liabilities (Carried Forward)	774,966,585	665,397,823

	December 31	
	2018	2017
Total Current Liabilities (Brought Forward)	P774,966,585	P665,397,823
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	47,219,123	39,286,226
Bills and acceptances payable (Note 17)	9,533,590	7,282,350
Long-term debts - net of current portion (Note 19)	18,555,324	1,475,466
Net retirement benefits liability (Note 23)	1,636,201	2,205,229
Deferred income tax liabilities - net (Note 29)	8,811,004	1,414,348
Other noncurrent liabilities (Note 20)	5,864,593	4,718,832
Total Noncurrent Liabilities	91,619,835	56,382,451
Total Liabilities	866,586,420	721,780,274
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	18,060,000	18,060,000
Other equity reserves	804,095	804,095
Reserves of disposal group classified as held for sale	(21,893)	—
Other comprehensive income, net of deferred income tax effect	15,410,482	4,299,674
Retained earnings	91,998,914	78,435,633
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	172,966,699	148,314,503
Non-controlling interests (Notes 1, 7, 12 and 30)	58,223,689	47,000,912
Total Equity	231,190,388	195,315,415
TOTAL LIABILITIES AND EQUITY	P1,097,776,808	P917,095,689

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		
	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
REVENUE (Note 24)			
Banking	P40,172,558	P31,840,282	P29,142,262
Distilled spirits	18,062,573	16,704,933	14,904,343
Beverage	14,125,559	12,948,796	10,932,326
Property development	3,198,735	2,233,063	2,851,514
	75,559,425	63,727,074	57,830,445
COST OF GOODS SOLD AND SERVICES (Note 24)	35,965,402	29,679,810	26,126,881
GROSS INCOME	39,594,023	34,047,264	31,703,564
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	7,966,691	3,963,505	2,785,845
	47,560,714	38,010,769	34,489,409
OPERATING EXPENSES			
Selling expenses (Note 25)	2,700,387	2,692,425	2,351,522
General and administrative expenses (Note 26)	28,302,277	24,380,465	25,037,148
	31,002,664	27,072,890	27,388,670
OPERATING INCOME	16,558,050	10,937,879	7,100,739
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	1,090,891	1,703,858	1,533,701
Finance income (Note 27)	206,641	157,100	106,426
Finance costs (Note 27)	(145,457)	(141,937)	(202,490)
Others - net (Note 28)	7,837,908	5,343,160	4,323,812
	8,989,983	7,062,181	5,761,449
INCOME BEFORE INCOME TAX	25,548,033	18,000,060	12,862,188
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	4,785,686	3,605,838	2,523,314
Deferred	(15,886)	(116,061)	(356,545)
	4,769,800	3,489,777	2,166,769
NET INCOME FROM CONTINUING OPERATIONS	20,778,233	14,510,283	10,695,419
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 37)	(219,972)	70,373	1,393,737
NET INCOME	P20,558,261	P14,580,656	P12,089,156
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P16,194,778	P10,830,773	P9,390,407
Non-controlling interests	4,363,483	3,749,883	2,698,749
	P20,558,261	P14,580,656	P12,089,156
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	P1.50	P1.00	P0.87
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	P1.48	P1.00	P0.86

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
NET INCOME	P20,558,261	P14,580,656	P12,089,156
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net changes in fair value of financial assets at FVTOCI (Note 7)	(145,484)	—	—
Income tax effect	—	—	—
	(145,484)	—	—
Net changes in fair value of AFS investments (Note 7)	—	2,533,268	(723,853)
Income tax effect	—	(55,010)	8,686
	—	2,478,258	(715,167)
Translation adjustments	451,664	508,364	302,754
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	306,180	2,986,622	(412,413)
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Net changes in fair value of financial assets at FVTOCI (Note 7)	(718,772)	—	—
Income tax effect	(214,593)	—	—
	(933,365)	—	—
Remeasurement gains (losses) on defined benefit plans (Note 23)	954,113	1,178,433	(423,766)
Income tax effect	(103,469)	(115,548)	20,179
	850,644	1,062,885	(403,587)
Share in remeasurement gain on defined benefit plans of associates (Note 11)	57,018	28,526	63,642
Revaluation increment on property, plant and equipment (Note 12)	23,910,070	—	390,727
Income tax effect	(7,173,021)	—	(117,218)
	16,737,049	—	273,509
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	16,711,346	1,091,411	(66,436)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	17,017,526	4,078,033	(478,849)
TOTAL COMPREHENSIVE INCOME	P37,575,787	P18,658,689	P11,610,307
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P25,558,850	P14,164,368	P9,170,228
Non-controlling interests	12,016,937	4,494,321	2,440,079
	P37,575,787	P18,658,689	P11,610,307

See accompanying Notes to Consolidated Financial Statements.



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LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	P25,548,033	P18,000,060	P12,862,188
Income (loss) before income tax from discontinued operations (Note 37)	(196,611)	77,651	1,458,863
Income before income tax	25,351,422	18,077,711	14,321,051
Adjustments for:			
Equity in net earnings of associates (Note 11)	(8,029,577)	(4,022,207)	(2,785,845)
Gain on disposal of:			
Other noncurrent assets (Notes 12, 13 and 28)	(6,086,834)	(4,163,507)	(1,823,200)
AFS investments (Notes 7 and 28)	—	(7,914)	—
Depreciation and amortization (Notes 12, 13 and 14)	4,160,956	3,721,723	3,657,358
Provision for losses (Notes 8 and 26)	1,454,773	891,490	3,218,905
Movement in accrued retirement benefits (Note 23)	1,133,427	642,387	762,610
Finance income (Note 27)	(206,641)	(157,100)	(106,426)
Finance costs (Note 27)	145,457	141,937	202,490
Dividend income (Note 28)	(87,517)	(62,143)	(53,729)
Share in losses of joint venture (Notes 11 and 28)	62,886	58,717	438,961
Mark-to-market gain on financial assets at FVTPL (Note 28)	(17,234)	(59,513)	(62,955)
Gain on:			
Remeasurement of retained interest (Note 28)	—	—	(1,644,339)
Sale of disposal group (Note 37)	—	—	(834,535)
Investment in an associate arising from contribution of non-monetary assets (Note 28)	—	—	(1,056,240)
Sale of brands (Note 37)	—	—	(46,300)
Operating income before changes in working capital	17,881,118	15,061,581	14,187,806
Decrease (increase) in:			
Financial assets at FVTPL	(4,247,368)	(17,395)	3,284,668
Receivables	(80,086,379)	(74,827,496)	(64,624,296)
Inventories	41,335	(515,290)	1,174,248
Other current assets	(6,533,145)	(1,815,226)	(1,781,349)
Increase (decrease) in:			
Deposit liabilities	91,880,892	66,260,295	85,264,040
Financial liabilities at FVTPL	127,126	110,690	97,639
Accounts payable and accrued expenses	750,406	5,063,878	211,457
Other current and noncurrent liabilities	17,387,414	(2,291,291)	2,984,382
Cash generated from operations	37,201,399	7,029,746	40,798,595
Dividends received (Notes 11, 22 and 28)	4,970,678	3,972,939	53,729
Contributions to retirement plan	(755,084)	(1,474,099)	(1,125,293)
Interest paid	(384,994)	(141,937)	(202,490)
Interest received	183,312	157,100	106,426
Income taxes paid, including creditable withholding and final taxes	(4,686,578)	(3,849,518)	(2,244,451)
Net cash from operating activities	36,528,733	5,694,231	37,386,516

(Forward)



	Years Ended December 31		
	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Financial assets at FVTOCI	(P25,601,160)	P–	P–
Financial assets at amortized cost	(73,040,529)	–	–
Held to maturity investments	–	(2,629,588)	(937,948)
Investment properties (Note 13)	(461,123)	(1,048,872)	(6,246,875)
Property, plant and equipment (Note 12)	(5,153,022)	(5,111,373)	(2,028,339)
Software (Note 14)	(344,334)	(1,036,864)	(426,881)
Distribution network access (Note 14)	–	(286,751)	–
AFS investments (Note 7)	–	(4,607,513)	–
Investment in joint venture and associates (Note 11)	1,534,000	(622,000)	187,051
Proceeds from sale of:			
Financial assets at FVTOCI (Note 7)	43,059,193	–	–
AFS investments (Note 7)	–	2,718,542	247,621
Other assets (Notes 12 and 13)	(588,684)	4,479,685	3,504,533
Disposal group classified as held for sale (Note 37)	–	–	3,050,850
Advances extended to affiliates	(7)	(106,158)	(329,433)
Net cash used in investing activities	(60,595,666)	(8,250,892)	(2,979,421)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Short-term debts (Note 19)	2,000,000	–	350,000
Bill and acceptance payable (Note 17)	26,166,148	8,030,740	10,133,725
Long-term debts (Note 19)	17,056,006	–	1,500,000
Payments of:			
Stock issuance costs	(15,000,000)	–	–
Dividends (Note 30)	(2,183,635)	(1,947,850)	(2,166,957)
Short-term debts (Note 19)	(1,500,000)	(200,000)	–
Long-term debts (Note 19)	–	(3,978,600)	(6,775,520)
Finance cost	–	–	(338,179)
Advances from affiliates (Note 22)	–	–	10,284
Net cash from financing activities	26,538,519	1,904,290	2,713,353
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,471,586	(652,371)	37,120,448
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	174,024,418	174,676,789	137,556,341
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P176,496,004	P174,024,418	P174,676,789

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**(Amounts in Thousands, Except for Par Value Per Share and Basic/
Diluted Earnings per Share)**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, 2018 and 2017, 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were authorized for issue by the Board of Directors (BOD) on March 12, 2019.

2. Summary of Significant Accounting and Financial Reporting PoliciesBasis 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 fair value through profit or loss (FVTPL), financial assets at FVTOCI, AFS investments, land and land improvements, plant buildings and building improvements, and machineries and equipment that have been measured at fair value. 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						Country of Incorporation
	2018		2017		2016		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
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, Inc. (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

(Forward)



	Percentage of Ownership						Country of Incorporation
	2018		2017		2016		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
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) ⁽⁵⁾	—	56.5	—	56.5	—	56.5	Philippines
							United States of America (USA)
PNB Corporation - Guam (PNB Guam)	—	56.5	—	56.5	—	56.5	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
Allianz-PNB Life Insurance, Inc. (APLI) (formerly PNB LI) ⁽⁶⁾	—	44.0	—	24.8	—	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	—	57.2	—	32.3	—	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	—	51.0	—	28.8	—	28.8	Hong Kong
ACR Nominees Limited	—	51.0	—	28.8	—	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBI)	—	27.8	—	15.7	—	15.7	USA
Mabuhay Global Pte. Ltd. (MGPL) ⁽⁷⁾	100.0	—	—	—	—	—	Singapore
Mabuhay Digital Technologies, Inc. (MDPI)	—	100.0	—	—	—	—	Philippines
Mabuhay Digital Philippines, Inc. (MDTI)	—	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, 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⁾ On April 26, 2018, the PNB's BOD approved the exchange of all their holdings in PNB Gen for shares in Alliedbankers Insurance Corporation (ABIC) (see Note 37).

⁽⁶⁾ Beginning December 18, 2015, assets and liabilities of APLI 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 APLI to Allianz SE (see Note 37).

⁽⁷⁾ Incorporated on May 17, 2018, MGPL holds direct ownership interest in MDTI, incorporated on September 28, 2018 to offer shared 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 other comprehensive income (OCI) to profit or loss or retained earnings, as appropriate.

Business Combination and Goodwill

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

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new pronouncements starting January 1, 2018. Unless otherwise indicated, the adoption of these pronouncements did not have any significant impact on the Group's financial position or performance.



- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*, address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight. These amendments are not applicable to the Group.

- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018.

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*, clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

The following standards have significant impact on the consolidated financial statements.

- PFRS 9, *Financial Instruments*
Effective January 1, 2018, PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 also supersedes all earlier versions of the standard, thereby bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group did not restate prior period comparative financial statements when the Group adopted the requirements of the new standard. Therefore, the comparative information for 2017 and 2016 is reported under PAS 39 and is not comparable to information presented in 2018. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 have been recognized in the 2018 opening balances of retained earnings and OCI as if the Group had always applied PFRS 9.

The Group adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

Classification and Measurement (C&M)

Financial assets are measured at FVTPL unless these are measured at FVTOCI or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets at FVTOCI. Debt instruments that are managed on a "hold to collect" basis will be classified as investment securities at amortized cost. Subsequent measurement of instruments classified as financial assets at FVTOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as financial assets at FVTOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVTPL unless an irrevocable designation is made to classify the instrument as financial asset at FVTOCI for equities. Unlike AFS for equity securities under PAS 39, the FVTOCI for equities category results in all realized and unrealized gains and losses being recognized in the consolidated statement of comprehensive income with no recycling to profit or loss. Only dividends will continue to be recognized in the consolidated statement of income.

Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit or loss. Derivatives continue to be measured as financial assets/liabilities at FVTPL under PFRS 9.

Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVTOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Incurred loss versus Expected Credit Loss Methodology

The application of ECL significantly changed the bank segment's credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred

loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

For the other segments of the Group, the standard's simplified approach was applied where ECLs are calculated based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk,

but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of PFRS 9 as at January 1, 2018 resulted in the increase in unrealized losses in OCI of P2.4 billion and reduction in retained earnings of P1.2 billion.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as of January 1, 2018 follow *(in millions)*:

	PAS 39 Measurement		Adjustments			PFRS 9 Measurement	
	Category	Amount	C&M	ECL	Total	Amount	Category
Financial assets							
Cash in banks and cash equivalents	L&R	P174,024.0	P-	P-	P-	P174,024.0	AC
Financial assets at FVTPL	FVPL	5,955.0	-	-	-	5,955.0	
Debt		2,317.0	(77.8)	-	(77.8)	2,239.2	FVTPL
		-	77.8	-	77.8	77.8	AC
Equity		3,638.0	(0.1)	-	(0.1)	3,637.9	FVTPL
		-	0.1	-	0.1	0.1	FVTOCI
Derivatives	FVPL	563.0	-	-	-	563.0	FVTOCI
AFS	AFS	73,209.0	(38.7)	(22.4)	(61.1)	73,147.9	
Debt		69,020.0	(69,020.0)	-	(69,020.0)	-	
		-	31,175.8	-	31,175.8	31,175.8	FVTOCI
		-	37,789.5	(22.4)	37,767.1	37,767.1	AC
Equity		4,189.0	(4,189.0)	-	(4,189.0)	-	
		-	531.6	-	531.6	531.6	FVTPL
		-	3,673.4	-	3,673.4	3,673.4	FVTOCI
HTM	HTM	99,773.0	3,149.5	(5.9)	3,143.6	102,916.6	
		99,773.0	(99,773.0)	-	(99,773.0)	-	
		-	82,996.7	(5.9)	82,990.8	82,990.8	AC
		-	19,925.8	-	19,925.8	19,925.8	FVTOCI
Loans and receivables	L&R	512,245.0	40.0	(2,439.1)	(2,399.1)	509,845.9	
		512,245.0	(10,445.3)	(2,439.1)	(12,884.4)	499,360.6	AC
		-	10,485.3	-	10,485.3	10,485.3	FVTOCI
Total		P865,769.0	P3,150.8	(P2,467.4)	P683.4	P866,452.4	

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Group on January 1, 2018:

- A portion of its previously held-to-maturity investments with carrying value of P19.9 billion were reclassified to financial assets at FVTOCI. Certain unquoted debt securities previously classified as 'loans and receivables' with carrying value of P10.5 billion were transferred to financial assets at FVTOCI. These debt securities are managed to collect contractual cash flows and sell to realize fair value changes prior to maturities of the securities.
- Certain equity investment securities previously classified as financial assets at FVTPL with carrying value of P0.1 billion were reclassified to financial assets at FVTOCI in compliance with the defined business models.
- Certain debt instruments previously classified as AFS investments with carrying value of P37.6 billion were reclassified to investment securities at amortized cost since the business model is to collect contractual cash flows up until their corresponding maturities.
- Certain equity investments of the Group previously classified as AFS investments with carrying value of P543.3 million were reclassified to financial assets at FVTPL in compliance with the defined business model.

The impact on the Group's retained earnings and net changes in financial assets at FVTOCI/AFS investments upon adoption of PFRS 9 are as follows *(in thousands)*:

Net changes in financial assets at FVTOCI/AFS investments		
Closing balance under PAS 39 (December 31, 2017)		P371,483
<i>Classification and measurement:</i>		
Reversal of net unrealized losses (AFS investments to investment securities at amortized cost)	B/	(54,684)
Recognition of net unrealized losses on equity securities	C/	16,000
Reclassification of net unrealized losses to retained earnings (FVPL to FVTOCI)	D/	22,880
Reversal of allowance on AFS equity investments reclassified to financial assets at FVTOCI	E/	(653,200)
Reversal of unamortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	(114,651)
Recognition of net unrealized gains or reversal of unamortized net unrealized losses (HTM investment to FVTOCI)	G/	3,149,500
Recognition of net unrealized gain (Loans and receivables at amortized cost to FVTOCI)	I/	40,000
		2,405,845



<i>Expected credit losses:</i>		
Recognition of ECL on financial assets at FVTOCI	A/	P58,500
		2,464,345
Opening balance under PFRS 9 (January 1, 2018)		P2,835,828
Retained earnings		
Closing balance under PAS 39 (December 31, 2017)		P78,435,633
<i>Classification and measurement:</i>		
Reversal of allowance on AFS equity investments reclassified to financial assets at FVTOCI	E/	637,200
Reclassification of net unrealized losses from retained earnings (FVTOCI to FVTPL)	D/	4,820
Reversal of amortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	114,651
		756,671
<i>Expected credit losses:</i>		
Recognition of ECL on financial assets at FVTOCI	A/	(58,500)
Recognition of ECL on financial assets at amortized cost	H/	(3,163,334)
Income tax effect		574,257
		(2,647,577)
		(1,890,906)*
Opening balance under PFRS 9 (January 1, 2018)		P76,544,727

*Amount includes share of non-controlling interests

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018 (*in millions*):

Measurement Category	Impairment Allowance under PAS 39	Transition adjustment	Impairment Allowance Under PFRS 9
Loans and receivables/Financial assets at amortized cost			
Finance receivables*	P18,056.3	(P1,893.0)	P16,163.3
Trade receivables	49.2	359.5	408.7
Other receivables	11.2	261.1	272.3
Financial assets at FVTOCI**	—	724.5	724.5
Investment securities at amortized cost	—	3,711.5	3,711.5
AFS investments - equity securities	696.2	(696.2)	—
	P18,812.9	P2,467.4	P21,280.3

*Certain unquoted debt securities were transferred to Investment securities at amortized cost as part of the adoption of PFRS 9

**Recognized in other comprehensive income

• PFRS 15, Revenue from Contracts with Customers

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

The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and supersedes all current revenue recognition requirements under PFRSs. The Group adopted PFRS 15 using the modified retrospective application with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

Rewards points program on credit card business

Prior to the adoption of PFRS 15, rewards points program offered by the banking segment to its credit card customers resulted in the allocation of a portion of the service fee (interchange fee) to the rewards point using the fair value of points issued and recognition of deferred revenue in relation to points issued but not yet redeemed or expired. The banking segment concluded that under PFRS 15 these rewards points constitute a separate performance obligation because they provide a material right to credit card customers and a portion of the service fee was allocated to the rewards points earned by the customers. The banking segment determined that, considering the relative stand-alone transaction prices, the amount attributable to earned rewards points was lower compared to the previous accounting policy. However, the change did not have a material impact on the deferred revenue related to the amount attributable to earned rewards points.

There were no adjustments recognized to the opening balances of retained earnings as at January 1, 2018 as the adoption of PFRS 15 did not materially impact the Group's accounting of revenues from service charges, and fees and commissions.

Revenue from contracts with customers of property development segment

On February 14, 2018, the Philippine Interpretations Committee (PIC) issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 29, 2018 and February 8, 2019, the Philippine Securities and Exchange Commission (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:

- Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E;
- Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D, and;
- 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.

The SEC Memorandum Circulars also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

- The accounting policies applied;
- Discussion of the deferral of the subject implementation issues in the PIC Q&A;
- Qualitative discussion of the impact in the financial statements had the concerned application guideline in the PIC Q&A been adopted; and
- Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, i.e., retrospectively, together with the corresponding required quantitative disclosures.

Except for the accounting for CUSA charges discussed under PIC Q&A No. 2018-12-H, which applies to leasing transactions, the above deferral will only be applicable for real estate sales transactions.

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 on the consolidated financial statements:

- 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 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
- 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 costs 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 year ended December 31, 2018.

The effects of adopting PFRS 15 as at January 1, 2018 are as follows *(in millions)*:

	As previously reported at December 31, 2017	References	Adjustment	As adjusted at January 1, 2018
Real estate inventories	P6,485.3	a	P67.4	P6,552.7
Contract receivables*	1,055.9	a	(22.1)	1,033.8
Deferred income tax assets - net	1,460.9	b	1.7	1,462.6
Other payables	22,024.0	a, b	(1.1)	22,022.9
Customers' deposits	987.9	a	76.1	1,064.0
Retained earnings	78,435.6	a, b	(28.0)	78,407.6

*Including noncurrent portion of contract receivables.

Set out below are the amounts by which each consolidated financial statement line item is affected as at and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The adoption of PFRS 15 did not have a material impact on other comprehensive income (OCI) or the Group's operating, investing and financing cash flows.

The first column shows amounts prepared under PFRS 15 and the second column shows what the amounts would have been had PFRS 15 not been adopted:

Consolidated Statement of Income for the year ended December 31, 2018 *(in millions)*:

	References	Amounts prepared under		Increase/ (Decrease)
		PFRS 15	Previous PFRS	
Real estate sales	a	P1,704.0	P1,745.8	(P41.8)
Cost real estate sales	a	1,209.1	1,232.1	(23.0)
Commissions	b	85.5	75.1	10.4
Income before income tax	a, b	25,548.0	25,577.2	(29.2)
Benefit from income tax - deferred	b	15.9	12.7	3.2
Net income from continuing operations	a, b	20,778.2	20,804.2	(26.0)

Consolidated Balance Sheet as at December 31, 2018 *(in millions)*:

	References	Amounts prepared under		Increase/ (Decrease)
		PFRS 15	Previous PFRS	
Real estate inventories	a	P5,268.1	P5,178.1	P90.0
Contract receivables*	a	1,348.5	1,384.5	(36.0)
Other current assets	b	362.8	362.7	0.1
Deferred income tax assets - net	b	1,899.0	1,894.1	4.9
Other payables	a, b	432.1	426.5	5.6
Customers' deposits	a	1,115.1	1,007.7	107.4
Retained earnings	a, b	91,998.9	92,052.9	(54.0)

*Including noncurrent portion of contract receivables.

The nature of the adjustments as at January 1, 2018 and the reasons for the significant changes in the consolidated balance sheet as at December 31, 2018 and the consolidated statement of income for the year ended December 31, 2018 are described below:

- The Group has determined that only a signed contract to sell will qualify as a contract under PFRS 15. Before the adoption of PFRS 15, the Group considered reservation agreements, including collections, as sufficient bases in recognizing revenue.

The above resulted to (1) decrease in contract receivables of P22.1 million, other payables of P6.9 million and retained earnings of P23.9 million; and (2) an increase in real estate inventories of P67.4 million and customers' deposits of P76.1 million as of January 1, 2018.

As at December 31, 2018, PFRS 15 resulted to a (1) decrease in contract receivables of P36.0 million, other payables of P10.7 million and retained earnings of P42.7 million; and (2) an increase in real estate inventories of P90.0 million and customers' deposits of P107.4 million.

- The Group has sales agents who are responsible for the marketing and sale of its real estate projects. These real estate sales agents typically receive sales commission equivalent to a certain percentage of the total contract price paid based on milestone payments by the customers. These are recorded as contract cost and are fully accrued based on the total expected payment. Contract cost is amortized using the percentage of completion method consistent with the measure of progress for revenue recognition. Before PFRS 15, the sales commissions are expensed as paid and there is no accrual for the unpaid portion of the total expected payment upon entering into the contract.

The above resulted to (1) increase in other payables of P5.8 million and deferred income tax assets of P1.7 million; and (2) decrease in retained earnings of P4.1 million as of January 1, 2018.

As at December 31, 2018, PFRS 15 resulted to (1) increase in other payables of P16.3 million; and (2) decrease in other current assets of P0.1 million, deferred income tax assets of P4.9 million and retained earnings of P11.3 million.

PIC Q&A on Advances to Contractors and PIC Q&A on Land Classification

The Group adopted PIC Q&A 2018-11, *Classification of Land by Real Estate Developer* and PIC Q&A 2018-15, PAS 1 - *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018. The impact of adoption is applied retrospectively which resulted to the following reclassifications in the consolidated statement of financial position at January 1, 2018 *(in millions)*:

	Current Assets	Noncurrent Assets
Advances to contractors and suppliers	(P1,012.2)	P1,012.2

Advances to contractors and suppliers in relation to the construction of investment properties previously presented under current assets were reclassified to noncurrent assets. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based on the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (i.e., inventories, investment properties and property and equipment).

New Accounting Standards, Amendments to Existing Standards and Interpretation Effective Subsequent to December 31, 2018

The standards, amendments and interpretation which have been issued and are effective as at December 31, 2018 are disclosed below. The Group intends to adopt these standards, amendments and interpretation, if applicable, when they become effective.

Effective beginning on or after January 1, 2019

- 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. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

- PFRS 16, *Leases*

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

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

- 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 consolidated statement of income. 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 apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- 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 are not expected to have any significant impact on the consolidated financial statements.

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

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

This interpretation is not expected to be relevant to the Group because there has been no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- 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 are currently not applicable to the Group but may apply to future transactions.

- 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 consolidated statement of income, 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 are not relevant to 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, the Group does not expect any effect on its consolidated financial statements upon adoption.

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 2018 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

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheet 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.

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 balance sheet 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.

Noncurrent Assets and Disposal Group Classified as Held for Sale and Discontinued Operations

The Group classifies noncurrent assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. Such noncurrent assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for

immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the consolidated balance sheet.

The Group accounts for any investment to be retained over the disposal group at cost and presents it as part of 'Investment in subsidiaries' in the consolidated balance sheets.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

Fair Value Measurement

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 - Classification and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date, the date that an asset is delivered to or by the Group. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized 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.

The Group classifies its financial assets in the following categories: financial assets at FVTPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVTPL and other 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.

Policies applicable effective January 1, 2018

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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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.

Derecognition of Financial Assets and Liabilities

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.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognized in the consolidated balance sheet 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 balance sheet. 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 balance sheet as 'Securities held under agreements to resell' under 'Cash and cash equivalents', 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.



Impairment of Financial Assets

Policies applicable beginning January 1, 2018

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 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 monthly movements 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 balance sheet 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.

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.

Property, Plant and Equipment

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 balance sheet). 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 balance sheet.

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.

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:

- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- 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

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. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements except for their brokerage transactions. 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. 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.

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 balance sheet.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- 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 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 balance sheet 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 balance sheet. 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.

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 balance sheet. 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 balance sheet 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 balance sheet.

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 owned 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 Group.

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/AFS investments, 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. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Commission earned on reinsurance

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th 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 24th 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 balance sheet. The corresponding cash received, including accrued interest, is recognized in the consolidated balance sheet 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 balance sheet. 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 balance sheet 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 balance sheet will be withheld and recognized as Funds held for reinsurers and included as part of the "Other liabilities" in the consolidated balance sheet. 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 balance sheet.

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 balance sheet. 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 balance sheet as part of real estate inventories and the deposit as part of "Customers' deposits" account.

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.

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) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

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.

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 balance sheet, 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 balance sheet, 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-
Subsidiary	Functional Currency
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

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 P18.1 billion as equity as of December 31, 2018 and 2017 (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 good 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).

Operating lease commitments - the Group as lessee

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).

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 balance sheet 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.

Disposal of APLII

In 2016, PNB completed the sale of its 51% ownership interest in APLII for a consideration amounting to US\$66.0 million (P3.1 billion). Pursuant to the sale of APLII, the Bank also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of the Bank over a period of 15 years [the Exclusive Distribution Rights (EDR)].

The Group has determined based on its evaluation that 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 consideration received by the Bank was allocated between the sale of its 51% ownership interest in APLII and the EDR (see Notes 11 and 37).

Classification of transfer of beer segment as discontinued operations

The Group classified the transfer of its beer segment as discontinued operations in accordance with PFRS 5, effective November 15, 2016, based on the joint venture agreement signed on May 27, 2016 in respect of the establishment of AB HPI to manage its beer segment. The beer segment met the criteria of a component of an entity that has been disposed of to be classified as discontinued operations as of December 31, 2016 since it represents a separate major line of business or geographical area of operations (see Note 37).

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 beginning January 1, 2018

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 interdependencies.

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, 2018 and 2017 amounted to P280.5 million and P273.7 million, respectively. Net retirement benefits liability amounted to P1.6 billion and P2.2 billion as of December 31, 2018 and 2017, 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 P1.7 billion, P0.8 billion and P1.6 billion and cost of real estate sales amounting to P1.2 billion, P0.4 billion and P1.1 billion in 2018, 2017 and 2016, 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 P73.2 billion, net of allowance for impairment losses on AFS equity investments amounting to P696.2 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, 2018 and 2017 amounted to P12.4 billion and P12.7 billion, respectively. Certain materials and supplies amounting to P0.7 billion and P0.6 billion as of December 31, 2018 and 2017, respectively, are carried at NRV (see Note 9).

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 P60.3 billion and P36.2 billion as of December 31, 2018 and 2017, 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 2018 and 2017, 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, 2018 and 2017 amounted to P27.5 billion and P26.4 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2018 and 2017 amounted to P7.6 billion and P7.2 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:

	2018	2017
	(In Thousands)	
Other current assets (except miscellaneous cash and other cash items) [Note 10]	P8,863,642	P11,804,831
Investments in associates and joint ventures (Note 11)	20,314,141	17,230,925
Property, plant and equipment (Note 12)	68,120,694	43,205,233
Investment properties (Note 13)	30,318,901	28,890,793
Other noncurrent assets (except net retirement plan assets, refundable and security deposits and goodwill) [Note 14]	5,798,886	5,044,010

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 P163.7 million as of December 31, 2018 and 2017 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 P253.3 million and P331.2 million as of December 31, 2018 and 2017, 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 P13.2 billion and P3.5 billion as of December 31, 2018 and 2017, 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 ABL 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).

The following tables present the information about the Group's operating segments:

For the year ended December 31, 2018:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	P40,172,558	P18,062,573	P14,125,559	P-	P3,198,735	P-	P75,559,425
Inter-segment	243,617	73,385	969,640	-	-	(1,286,642)	-
	40,416,175	18,135,958	15,095,199	-	3,198,735	(1,286,642)	75,559,425
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	30,632,175	3,290,190	4,100,168	-	1,616,080	(44,590)	39,594,023
Equity in net earnings (loss) of associates and joint ventures	43,847	-	(736,051)	8,461,642	-	197,253	7,966,691
	30,676,022	3,290,190	3,364,117	8,461,642	1,616,080	152,663	47,560,714
(Forward)							

- 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 12.3% and 2.8% as of December 31, 2018, respectively, and 10.3% and 2.6% as of December 31, 2017 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 85%, 85% and 84% of the segment's total revenue in 2018, 2017 and 2016, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
Selling expenses	P–	P1,468,287	P1,130,938	P–	P101,162	P–	P2,700,387
General and administrative expenses	25,301,772	650,454	1,230,068	123,783	846,640	149,560	28,302,277
Operating income	5,374,250	1,171,449	1,003,111	8,337,859	668,278	3,103	16,558,050
Foreign exchange gains - net	942,372	1,176	6,064	121,542	4,757	14,980	1,090,891
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	7,344,532	24,041	25,217	68,172	229,267	146,679	7,837,908
Income before income tax	13,661,154	1,148,195	981,520	8,805,918	668,450	282,796	25,548,033
Provision for income tax	3,663,744	239,271	560,609	55,103	189,694	61,379	4,769,800
Segment profit from:							
Continuing operations	9,997,410	908,924	420,911	8,750,815	478,756	221,417	20,778,233
Discontinued operations	(219,972)	–	–	–	–	–	(219,972)
	P9,777,438	P908,924	P420,911	P8,750,815	P478,756	P221,417	P20,558,261
Segment profit attributable to:							
Equity holders of the Company	P9,686,390	P889,908	P422,720	P8,750,815	P478,756	(P4,033,811)	P16,194,778
Non-controlling interests	91,048	19,016	(1,809)	–	–	4,255,228	4,363,483
Depreciation and amortization expense	1,782,542	554,067	1,462,636	27,094	312,875	21,742	4,160,956

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
Assets:							
Current assets	P435,407,693	P12,028,921	P13,881,506	P13,140,794	P10,664,924	(P10,172,364)	P474,951,474
Noncurrent assets	559,295,135	8,106,084	15,531,323	17,128,450	20,817,385	1,946,957	622,825,334
	P994,702,828	P20,135,005	P29,412,829	P30,269,244	P31,482,309	(P8,225,407)	P1,097,776,808
Liabilities:							
Current liabilities	P776,308,797	P2,813,098	P5,580,064	P304,374	P6,105,767	(P16,145,515)	P774,966,585
Noncurrent liabilities	85,859,497	556,868	798,342	103,756	8,227,741	(3,926,369)	91,619,835
	P862,168,294	P3,369,966	P6,378,406	P408,130	P14,333,508	(P20,071,884)	P866,586,420
Investments in associates and joint ventures	P2,415,414	P–	P305,413	P13,553,425	P–	P4,039,889	P20,314,141
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	–	–	–	7,190,966	(4,206,185)	18,646,153

For the year ended December 31, 2017, as restated:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
Segment revenue:							
External customers	P31,840,282	P16,704,933	P12,948,796	P–	P2,233,063	P–	P63,727,074
Inter-segment	274,244	89,388	944,440	–	–	(1,308,072)	–
	32,114,526	16,794,321	13,893,236	–	2,233,063	(1,308,072)	63,727,074
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	25,775,158	2,717,047	4,301,422	–	1,424,481	(170,844)	34,047,264
Equity in net earnings (loss) of associates and joint ventures	59,215	–	(636,330)	4,366,967	–	173,653	3,963,505
	25,834,373	2,717,047	3,665,092	4,366,967	1,424,481	2,809	38,010,769
Selling expenses	–	1,319,102	1,326,726	–	46,597	–	2,692,425
General and administrative expenses	21,763,710	584,829	1,086,694	141,044	684,931	119,257	24,380,465
Operating income	4,070,663	813,116	1,251,672	4,225,923	692,953	(116,448)	10,937,879
Foreign exchange gains (losses) - net	1,676,926	(1,307)	3,772	23,408	(149)	1,208	1,703,858
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	10,801,634	833,179	1,191,909	4,422,113	512,098	239,127	18,000,060
Provision for income tax	2,314,935	202,052	639,729	19,110	164,458	149,493	3,489,777
Segment profit							
Continuing operations	8,486,699	631,127	552,180	4,403,003	347,640	89,634	14,510,283
Discontinued operations	70,373	–	–	–	–	–	70,373
	P8,557,072	P631,127	P552,180	P4,403,003	P347,640	P89,634	P14,580,656
Segment profit attributable to:							
Equity holders of the Company	P4,830,426	P623,802	P552,180	P4,384,387	P346,319	P93,659	P10,830,773
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	P375,392,442	P12,959,935	P12,112,007	P11,508,813	P10,645,975	(P7,043,863)	P415,575,309
Noncurrent assets	448,155,535	7,105,438	15,783,681	14,516,726	19,079,479	(3,120,479)	501,520,380
	P823,547,977	P20,065,373	P27,895,688	P26,025,539	P29,725,454	(P10,164,342)	P917,095,689
Liabilities:							
Current liabilities	P664,985,426	P3,483,340	P4,355,838	P303,905	P4,892,439	(P12,623,125)	P665,397,823
Noncurrent liabilities	51,413,216	623,725	1,011,573	84,530	8,143,165	(4,893,758)	56,382,451
	P716,398,642	P4,107,065	P5,367,411	P388,435	P13,035,604	(P17,516,883)	P721,780,274
Investments in associates and joint ventures	P2,363,757	P—	P1,032,149	P11,447,030	P—	P2,387,989	P17,230,925
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

For the year ended December 31, 2016, as restated:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	P29,142,262	P14,904,343	P10,932,326	P—	P2,851,514	P—	P57,830,445
Inter-segment	190,274	109,385	917,651	—	—	(1,217,310)	—
	29,332,536	15,013,728	11,849,977	—	2,851,514	(1,217,310)	57,830,445
Cost of goods sold and services	5,722,739	12,293,366	7,818,988	—	1,342,857	(1,051,069)	26,126,881
Gross profit	23,609,797	2,720,362	4,030,989	—	1,508,657	(166,241)	31,703,564
Equity in net earnings of associates	—	—	—	2,587,224	—	198,621	2,785,845
	23,609,797	2,720,362	4,030,989	2,587,224	1,508,657	32,380	34,489,409
Selling expenses	—	999,866	1,310,612	—	52,848	(11,804)	2,351,522
General and administrative expenses	22,689,205	551,755	907,564	152,630	628,773	107,221	25,037,148
Operating income	920,592	1,168,741	1,812,813	2,434,594	827,036	(63,037)	7,100,739
Foreign exchange gains - net	1,486,224	364	—	27,417	4,251	15,445	1,533,701
Finance income	—	159	20,807	70,136	55,871	(40,547)	106,426
Finance costs	—	(10,967)	(48,789)	—	(357,700)	214,966	(202,490)
Others - net	5,799,417	14,664	(189,206)	50,537	71,811	(1,423,411)	4,323,812
Income before income tax	8,206,233	1,172,961	1,595,625	2,582,684	601,269	(1,296,584)	12,862,188
Provision for (benefit from) income tax	1,509,330	265,459	548,815	(3,579)	211,760	(365,016)	2,166,769
Segment profit (loss) from:							
Continuing operations	6,696,903	907,502	1,046,810	2,586,263	389,509	(931,568)	10,695,419
Discontinued operations	685,330	—	708,407	—	—	—	1,393,737
	P7,382,233	P907,502	P1,755,217	P2,586,263	P389,509	(P931,568)	P12,089,156
Segment profit attributable to:							
Equity holders of the Company	P4,147,220	P898,192	P1,755,217	P2,575,375	P388,029	(P373,626)	P9,390,407
Non-controlling interests	3,235,013	9,310	—	10,888	1,480	(557,942)	2,698,749
Depreciation and amortization expense	1,393,334	529,743	1,538,972	11,477	163,644	20,188	3,657,358

Other financial information of the operating segments as of December 31, 2016 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Assets:							
Current assets	P376,639,685	P11,281,760	P11,899,140	P10,107,420	P12,774,195	(P17,925,076)	P404,777,124
Noncurrent assets	364,245,652	7,159,081	15,017,583	13,362,146	16,415,790	8,113,648	424,313,900
	P740,885,337	P18,440,841	P26,916,723	P23,469,566	P29,189,985	(P9,811,428)	P829,091,024
Liabilities:							
Current liabilities	P575,558,848	P2,463,592	P4,019,000	P317,324	P6,816,393	(P11,108,655)	P578,066,502
Noncurrent liabilities	68,358,018	651,039	1,113,781	92,136	6,043,487	(3,838,515)	72,419,946
	P643,916,866	P3,114,631	P5,132,781	P409,460	P12,859,880	(P14,947,170)	P650,486,448
Investments in associates and a joint venture	P2,532,754	P—	P1,643,304	P11,049,385	P—	P1,591,908	P16,817,351
Equity attributable to:							
Equity holders of the Company	55,888,301	15,196,522	21,783,942	23,060,106	16,330,105	3,839,009	136,097,985
Non-controlling interests	41,080,170	129,688	—	—	—	1,296,733	42,506,591
Additions to noncurrent assets:							
Property, plant and equipment	2,133,146	612,136	1,987,832	3,946	29,258	2,693	4,769,011
Investment properties	681,510	—	—	—	389,314	1,466	1,072,290
Short-term debts	—	—	1,750,000	—	—	—	1,750,000
Long-term debts	3,497,798	—	—	—	4,070,949	(2,000,000)	5,568,747

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2018	2017
	<i>(In Thousands)</i>	
Cash and other cash items	P21,298,919	P17,782,966
Cash equivalents:		
Due from Bangko Sentral ng Pilipinas (BSP)	102,723,312	108,743,985
Due from other banks	20,525,318	20,038,263
Interbank loans receivable	11,248,455	12,837,721
Securities held under agreements to resell	20,700,000	14,621,483
	P176,496,004	P174,024,418

- 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:

	2018	2017
	<i>(In Thousands)</i>	
Government securities	P8,457,713	P2,207,953
Equity securities	545,148	73,917
Derivative assets (Notes 21 and 33)	574,628	562,984
Private debt securities	415,583	109,081
Unit investment trust fund (UITF)	789,949	3,564,484
	P10,783,021	P6,518,419

- a. As of December 31, 2018 and 2017, unrealized loss on government and private debt securities amounted to P5.4 million and P73.0 million, respectively. In 2018, 2017 and 2016, the nominal interest rates range from 2.75% to 8.38%, from 2.13% to 6.13% and from 2.75% to 10.63%, respectively, for the government securities, and from 3.0% to 7.5%, from 5.23% to 6.63%, and from 5.5% to 7.38%, respectively, for the private debt securities.
- b. The carrying amount of equity securities includes unrealized loss of P7.9 million and P22.0 million as of December 31, 2018 and 2017, 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 P17.2 million, P59.5 million and P63.0 million in 2018, 2017 and 2016, respectively (see Note 28). Realized gains from redemption of investment presented under finance income amounted to P22.9 million in 2018, P20.2 million in 2017 and P6.3 million in 2016 (see Note 27).

7. Financial Assets at FVTOCI, AFS Investments, Financial Assets at Amortized Cost and HTM Investments

Financial Assets at FVTOCI

As of December 31, 2018, this account consists of *(in thousands)*:

Government securities (Note 17)	P33,565,677
Other debt securities	17,672,009
Equity securities:	
Quoted	3,984,141
Unquoted	2,129,641
	57,351,468
Noncurrent portion	(48,094,583)
	P9,256,885

AFS Investments

As of December 31, 2017, this account consists of *(in thousands)*:

Government securities (Note 17)	P41,625,900
Other debt securities	27,394,342
Equity securities:	
Quoted	3,833,789
Unquoted	1,051,616
	73,905,647
Allowance for impairment losses	(696,235)
	73,209,412
Noncurrent portion	(70,664,823)
	P2,544,589

The movements in net unrealized gain (loss) recognized in other comprehensive income follow:

- a. For the years ended December 31, 2018, 2017 and 2016, the nominal interest rates of government securities range from 1.83% to 11.63%, 1.05% to 10.63% and 2.75% to 10.63%, respectively.
- b. For the years ended December 31, 2018 and 2017, and 2016, the nominal interest rates of private debt securities range from 2.63% to 7.38% and 5.50% to 7.38%, respectively.
- c. As of December 31, 2018 and 2017, the fair value of financial assets at FVTOCI/AFS investments 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 P21.5 billion (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, 2018 and 2017, effective interest rates for the financial assets at FVTOCI/ AFS investments follow:

	2018	2017
Peso-denominated	0.41% to 6.30%	0.88% to 9.33%
Foreign-currency denominated	1.13% to 6.00%	0.04% to 10.30%

- f. No impairment loss for AFS investments has been recognized on unquoted debt securities for the year ended December 31, 2017.



As of December 31, 2018, the net unrealized gains on financial assets at FVTOCI amounted to P1.4 billion for the Group, net of deferred income tax effect amounting to P214.6 million.

Presented below are the movements in the net changes in fair values of AFS investments as of December 31, 2017 (*in thousands*):

Balance at beginning of year	(P2,971,896)
Net changes in fair value of AFS investments during the year*:	
Fair value changes during the year on financial assets at AFS investments	2,984,496
Realized gains**(Note 24)	(506,238)
	2,478,258
Balance at end of year	(P493,638)
Attributable to:	
Equity holders of the Company	P371,483
Non-controlling interests	(865,121)
	(P493,638)

* Net of deferred income tax effect amounting to P0.7 million.

** Included in "Trading and securities gains" under "Banking revenue".

Financial Assets at Amortized Cost

As of December 31, 2018, this account consists of:

Government securities (Note 19)	P60,278,202
Private debt securities (Note 19)	43,263,773
	103,541,975
Less allowance for expected credit losses (Note 12)	(3,769,264)
	P99,772,711

The allowance for expected credit losses as of January 1, 2018 was P3.7 billion and increased by P57.7 million at December 31, 2018. Movements over the year were mostly driven by the movements in the corresponding gross figures in 2018. The impairment allowance under PAS 39 for financial assets at amortized cost was nil.

As of December 31, 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 P36.3 billion (see Note 17).

Held-to-Maturity Investments

As of December 31, 2017, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to P17.8 billion (see Note 17).

Reclassification of financial assets

On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of P15.9 billion and P6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to P2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2018, the Group has no reclassified investment securities. As of December 31, 2017, the carrying values and fair values of the Group's reclassified investment securities amounted to P24.0 billion.

Had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group in the consolidated statements of comprehensive income amounts to nil in 2018, P0.5 billion in 2017 and P0.3 billion in 2016.

8. Loans and Receivables

Loans and receivables consist of:

	2018	2017
	<i>(In Thousands)</i>	
Finance receivables (Notes 17 and 22)	P593,748,803	P514,363,730
Trade receivables	14,311,108	13,266,725
Other receivables	3,193,332	2,731,658
	611,253,243	530,362,113
Allowance for credit losses	(17,564,900)	(18,116,748)
	593,688,343	512,245,365
Noncurrent portion	(347,753,938)	(307,622,788)
	P245,934,405	P204,622,577

Finance Receivables

	2018	2017
	<i>(In Thousands)</i>	
Receivables from customers:		
Loans and discounts	P539,217,233	P452,206,784
Customers' liabilities on acceptances, letters of credit and trust receipts	13,996,644	11,912,916
Bills purchased (Note 20)	2,222,377	1,723,514
Credit card receivables	13,412,063	10,145,474
Finance lease receivables	2,928,339	2,891,043
	571,776,656	478,879,731
Unquoted debt securities*	–	14,674,130
Other receivables:		
Accounts receivable	4,025,936	10,215,695
Accrued interest receivable	6,717,723	4,414,165
Sales contract receivables	11,916,785	7,155,924
Miscellaneous	552,443	577,369
	23,212,887	22,363,153
	594,989,543	515,917,014
Unearned and other deferred income	(1,240,740)	(1,553,284)
	593,748,803	514,363,730
Allowance for credit losses	(17,100,449)	(18,056,306)
	576,648,354	496,307,424
Noncurrent portion	(347,459,220)	(306,855,992)
	P229,189,134	P189,451,432

*Unquoted debt securities were transferred to financial assets at amortized cost and financial assets at FVTOCI as part of the adoption of PFRS 9

a. Transactions with Maybank Philippines, Inc. (Maybank)

In 2016, the Group applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2018 and 2017, the remaining receivables (included in 'Loans and receivables') amounted to P0.3 billion which is fully covered by an allowance.

b. 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 P803.5 million (Tranche A Note) payable in five years and at the principal amount of P3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of P5.3 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 P3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2018 and 2017, the notes are carried at their recoverable values.

c. Finance lease receivable

An analysis of the Group's finance lease receivables as of December 31 is presented as follows:

	2018	2017
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	P1,101,635	P1,265,542
Due beyond one year but not over five years	1,151,333	924,973
Due beyond five years	26,034	25,200
	2,279,002	2,215,715
Residual value of leased equipment		
Due within one year	298,725	292,000
Due beyond one year but not over five years	350,612	383,328
	649,337	675,328
Total finance lease receivable	P2,928,339	P2,891,043

d. Interest income on loans and receivables consists of (see Note 24):

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
Receivable from customers and sales contract receivables	P29,966,048	P22,255,272	P19,454,187
Unquoted debt securities	—	146,012	51,160
	P29,966,048	P22,401,284	P19,505,347

As of December 31, 2018 and 2017, 64.09% and 96.1%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.75% to 9.00% in 2018, from 2.0% to 8.3% in 2017 and from 2.3% to 8.8% in 2016 for foreign currency-denominated

receivables, and from 1.53% to 13.00% in 2018, from 1.9% to 7.9% in 2017 and from 1.0% to 35.0% in 2016 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.30% to 21.00%, 2.70% to 21.00% and 5.00% to 21.00% in 2018, 2017 and 2016, respectively. Interest income accrued on impaired loans and receivable of the Group amounted to P217.0 million in 2018, P99.0 million in 2017 and P103.7 million in 2016.

Trade Receivables

Trade receivables consist of:

	2018	2017
	(In Thousands)	
Consumer goods	P12,916,794	P12,183,109
Contract receivables	1,348,498	1,055,912
Lease receivables	45,816	27,704
	14,311,108	13,266,725
Allowance for credit losses/doubtful accounts	(453,211)	(49,202)
	13,857,897	13,217,523
Noncurrent portion of contract receivables	(294,718)	(766,796)
	P13,563,179	P12,450,727

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 P14.3 million, P16.5 million and P41.7 million in 2018, 2017 and 2016, 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, 2018			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year, as previously reported	P18,056,306	P49,202	P11,240	P18,116,748
Impact of adoption of PFRS 9	2,074,363	364,737	—	2,439,100
Balance at beginning of year, as adjusted	20,130,669	413,939	11,240	20,555,848
Provisions during the year (Note 26)	1,691,282	3,601	—	1,694,883
Accounts charged off, transfers and others	(4,721,502)	35,671	—	(4,685,831)
Balance at end of year	P17,100,449	P453,211	P11,240	P17,564,900

Movements of Allowance for Doubtful Accounts

Details and movements of allowance for doubtful accounts as follows:

	December 31, 2017			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	(In Thousands)			
Balance at beginning of year	P17,253,410	P41,904	P11,240	P17,306,554
Provisions during the year (Note 26)	1,184,866	7,354	—	1,192,220
Accounts charged off, transfers and others	(381,970)	(56)	—	(382,026)
Balance at end of year	P18,056,306	P49,202	P11,240	P18,116,748



9. Inventories

Inventories consist of:

	2018	2017
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	P3,247,739	P3,341,553
Beverage	2,886,739	2,034,272
	6,134,478	5,375,825
Real estate inventories:		
Condominium and residential units for sale	507,099	926,139
Subdivision land under development	217,542	4,459,621
Land held for future development	4,543,419	1,099,584
	5,268,060	6,485,344
Fuel, materials and supplies	1,006,896	881,267
	12,409,434	12,742,436
At NRV - Materials and supplies	698,770	622,653
	P13,108,204	P13,365,089

Allowance for inventory obsolescence on materials and supplies amounted to P4.1 million and P5.5 million as of December 31, 2018 and 2017, respectively.

a. Components of the consumer goods inventories are as follows:

	2018	2017
	(In Thousands)	
Finished goods	P667,515	P670,852
Work in process	1,480,638	1,479,234
Raw materials	3,986,325	3,225,739
	P6,134,478	P5,375,825

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to P17.0 billion, P12.2 billion and P10.9 billion in 2018, 2017 and 2016, respectively (see Note 24).

b. Movements in real estate inventories are set out below:

	2018	2017
	(In Thousands)	
Balance at beginning of year	P6,485,344	P6,726,546
Construction/development costs incurred	394,855	729,347
Transfer to property, plant and equipment and investment properties (Notes 12, 13 and 35)	(282,918)	(536,674)
Disposals and others	(1,329,221)	(433,875)
Balance at end of year	P5,268,060	P6,485,344

10. Other Current Assets

	2018	2017
	(In Thousands)	
Creditable withholding taxes (CWT)	P4,749,253	P5,926,539
Input VAT	1,432,793	1,080,287
Advances to suppliers	907,300	986,730
Prepaid expenses	863,781	603,706
Excise tax (Note 38)	278,257	1,186,082
Miscellaneous cash and other cash items	242,058	666,761
Deferred rent	170,162	184,628
Stationeries, office supplies and stamps on hand	96,754	323,630
Deferred charges	2,549	2,040
Deferred reinsurance premiums	—	820,757
Others	362,793	690,432
	P9,105,700	P12,471,592

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 P114.3 million and P103.7 million as of December 31, 2018 and 2017, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.

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	
	2018	2017	2018	2017
	(In Thousands)			
Associates:				
PMFTC	49.6%	49.6%	P12,818,935	P10,751,235
VMC	30.9%	30.9%	2,648,053	2,411,284
AB HPI	50.0%	50.0%	274,897	997,736
APLII	44.0%	44.0%	2,415,414	2,363,757
Joint Ventures:				
ABI Pascual Holdings	50.0%	50.0%	30,516	34,413
AEPDC	50.0%	50.0%	2,126,326	672,500
			P20,314,141	P17,230,925

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2018	2017
	(In Thousands)	
Acquisition cost	P13,483,541	P13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	(2,909,390)	(3,189,762)
Equity in net earnings	8,461,642	4,366,968
Cash dividends (Note 22)	(6,461,118)	(4,086,596)
Balance at end of year	(908,866)	(2,909,390)
Accumulated share in other comprehensive income	244,260	177,084
	P12,818,935	P10,751,235

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 P13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain

of P5.1 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 P5.1 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 P293.0 million each year starting 2011 until 2017 and an outright loss of P2.0 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 liabilities, portion of the revaluation increment on FTC's property, plant and equipment amounting to P1.9 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:

	2018	2017
	(In Thousands)	
Current assets	P28,979,372	P30,471,572
Noncurrent assets	27,867,259	28,681,824
Current liabilities	9,637,631	16,573,030
Noncurrent liabilities	4,831,841	7,507,626
Equity	42,377,159	35,072,740
Equity interest of the Parent Company	49.6%	49.6%
Share in net assets of the acquiree	21,019,071	17,396,079
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	(8,200,136)	(6,644,844)
Carrying value of investment	P12,818,935	P10,751,235

Summarized financial information of PMFTC, based on its financial statements as at December 31, 2018 and 2017 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2018	2017	2016
	(In Thousands)		
Revenue	P145,305,192	P117,396,976	P112,429,500
Costs and expenses	(121,412,768)	(105,523,675)	(105,770,205)
Income before income tax	23,892,424	11,873,301	6,659,295
Provision for income tax	(7,099,376)	(3,575,735)	(1,949,921)
Net income	16,793,048	8,297,566	4,709,374
Other comprehensive income	135,435	177,549	124,125
Total comprehensive income	P16,928,483	P8,475,115	P4,833,499
Group's share of total comprehensive income for the year	P8,461,462	P4,366,968	P2,587,224

Investment in VMC

Details of investment in VMC are as follows:

	2018	2017
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	P1,459,768	P1,400,825
Additions	—	58,943
Balance at end of year	1,459,768	1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	P892,194	P718,190
Equity in net earnings	246,926	173,652
Excess of fair value of net assets of associate over cost of investment	—	352
Balance at end of year	1,139,120	892,194
Share in remeasurement gain on defined benefit plans	(9,295)	862
Balance of convertible notes	58,460	58,460
	P2,648,053	P2,411,284

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 P660.3 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 P58.94 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, 2018 and 2017 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2018	2017
	(In Thousands)	
Current assets	P3,427,476	P2,903,212
Noncurrent assets	6,592,729	9,872,331
Current liabilities	2,190,518	1,572,144
Noncurrent liabilities	1,382,714	4,191,601
Equity	6,446,973	7,011,798
Equity interest of the Parent Company	30.9%	30.9%
Share in net assets of the acquiree	1,992,115	2,166,645
Fair value adjustments and others	655,938	244,639
Carrying value of investment	P2,648,053	P2,411,284

Summarized statements of comprehensive income of VMC for the years ended November 30 are as follows:

	2018	2017	2016
	(In Thousands)		
Revenue	P6,080,583	P9,218,976	P5,195,381
Costs and expenses	(4,949,048)	(8,348,308)	(4,296,953)
Income before income tax	1,131,535	870,668	898,428
Provision for income tax	(332,421)	(289,427)	(249,141)
Net income	799,114	581,241	649,287
Other comprehensive income (loss)	(32,781)	(2,843)	(53)
Total comprehensive income	P766,333	P578,398	P649,234
Group's share of total comprehensive income for the year	P236,769	P173,652	P196,069

Investment in AB HPI

On May 6, 2016, AB HPI was incorporated and registered with the Philippine SEC for 1,000 authorized shares at P1,000 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 P5.0 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 P782.4 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 P782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain from fair valuation amounting to P46.3 million.



Details of the investment in an associate as of December 31 are as follows:

	2018	2017
	(In Thousands)	
Beginning balance/acquisition cost	P787,400	P787,400
Accumulated equity in net earnings:		
Balance at the beginning of the year	210,336	787,948
Share in net loss of an associate	(722,839)	(577,612)
Balance at end of year	(512,503)	210,336
Ending balance	P274,897	P997,736

Summarized financial information of AB HPI as of December 31 2018 and 2017 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2018	2017
	(In Thousands)	
Current assets	P3,330,048	P3,564,521
Noncurrent assets	2,190,077	1,538,465
Current liabilities	2,702,540	2,458,799
Noncurrent liabilities	2,276,335	967,236
Equity	541,250	1,676,951
Equity interest of the Parent Company	50%	50%
Share in net assets of the acquiree	270,625	838,478
Others	4,272	159,258
Carrying value of investment	P274,897	P997,736

Summarized statements of comprehensive income of AB HPI for the years ended December 31 are as follows:

	2018	2017
	(In Thousands)	
Revenue	P2,889,832	P3,249,696
Costs and expenses	(4,335,508)	(4,405,921)
Loss before income tax	1,445,676	1,156,225
Provision for income tax	—	—
Net loss	1,445,676	1,156,225
Other comprehensive loss	—	—
Total comprehensive loss	P1,445,676	P1,156,225
Group's share of total comprehensive loss for the year	P722,838	P577,612

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 (P3.1 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 (P3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US\$44.9 million (P2.1 billion) and US\$21.1 million (P1.0 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 P400.3 million, net of taxes and transaction costs amounting to P276.7 million and P153.3 million, respectively. The deferred revenue amounting to P976.2 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 P36.5 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 P292.4 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 P2.7 billion based on the fair value of its retained equity. PNB recognized gain on remeasurement amounting to P1.6 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, 2018 and 2017 follows:

	2018	2017
	(In thousands)	
Current assets	P1,260,591	P9,043,953
Noncurrent assets	28,363,443	18,478,830
Current liabilities	(1,079,194)	(9,151,219)
Noncurrent liabilities	(26,504,728)	(16,537,013)
Equity	2,040,112	1,834,551
Equity interest of the Parent Company	44%	44%
Share in net assets of the acquiree	897,649	807,202
Premium on acquisition	1,517,765	1,556,555
Carrying value of investment	P2,415,414	P2,363,757

Summarized statements of total comprehensive income of APLII for the year ended December 31, 2018 follows:

	2018	2017
	(In Thousands)	
Revenue	P2,752,253	P2,190,474
Costs and expenses	(2,602,149)	(2,018,549)
Income before income tax	150,104	171,925
Provision for income tax	(34,941)	(35,128)
Net income	115,163	136,797
Other comprehensive income	128,594	(133,356)
Total comprehensive income	P243,757	P3,441
Group's share of total comprehensive income for the year	P107,253	P60,191

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 P20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to P40.2 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:

	2018	2017
	<i>(In thousands)</i>	
Current assets	P313,887	P312,747
Noncurrent assets	1,957	2,385
Current liabilities	266,323	242,714
Noncurrent liabilities	—	4,059
Total equity	49,521	68,359

The summarized statements of comprehensive income of ABI Pascual Holdings for the years ended December 31 follows:

	2018	2017
	<i>(In Thousands)</i>	
Revenue	P276,630	P246,833
Costs and expenses	(284,356)	(366,651)
Loss before income tax	(7,726)	(119,818)
Provision for income tax	—	—
Net loss	(7,726)	(119,818)
Other comprehensive income	—	—
Total comprehensive loss	(P7,726)	(P119,818)
Group's share of total comprehensive loss for the year	(P3,863)	(P59,909)

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 P20.0 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 P252.0 million.

On November 20, 2017, the Company made additional capital infusion amounting to P370.0 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 P1.5 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:

	2018	2017
	<i>(In Thousands)</i>	
Beginning balance/acquisition cost	P672,500	P20,000
Additional capital infusion during the year	1,503,500	652,500
Accumulated equity in net earnings:		
Balance at the beginning of the year	—	—
Share in net loss of a joint venture*	(49,674)	—
Balance at end of year	(49,674)	—
Ending balance	P2,126,326	P672,500

*Includes catch-up adjustment of share in net loss in prior year

Summarized financial information of AEPDC as of December 31, 2018 and 2017 follows:

	2018	2017
	<i>(In thousands)</i>	
Current assets	P2,685,351	P486,949
Noncurrent assets	9,720,940	3,508,963
Current liabilities	8,067,595	2,764,311
Noncurrent liabilities	897,227	—
Equity	3,441,469	1,231,601

Summarized statements of total comprehensive income of AEPDC for the year ended December 31, 2018 follows:

	2018	2017
	<i>(In Thousands)</i>	
Revenue	P223,134	P2,007
Costs and expenses	(292,911)	(50,527)
Loss before income tax	(69,777)	(48,520)
Provision for income tax	11,677	7,272
Net loss	(58,100)	(41,248)
Other comprehensive income	—	—
Total comprehensive loss	(P58,100)	(P41,248)
Group's share of total comprehensive loss for the year	(P29,050)	(P20,624)

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:

	2018	2017	2016
	<i>(In Thousands)</i>		
Accumulated balances of material non-controlling interest	P47,290,358	P45,546,934	P41,080,170
Net income allocated to material non-controlling interest	3,095,918	3,722,621	3,235,013
Total comprehensive income allocated to material non-controlling interest	1,743,424	4,466,764	2,976,343

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:

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Revenue	P40,416,175	P32,217,391	P29,332,536
Cost of services	(9,784,000)	(6,339,368)	(5,722,738)
General and administrative expenses	(25,301,772)	(22,486,549)	(22,689,205)
Foreign exchange gains - net	942,372	1,676,927	1,486,224
Other income - net	7,344,532	5,733,233	5,799,417
Income before income tax	13,617,307	10,801,634	8,206,234
Provision for income tax	(3,663,744)	(2,314,935)	(1,509,331)
Net income from continuing operations	9,953,563	8,486,699	6,696,903
Net income (loss) from discontinued operations	(219,972)	70,373	685,330
Net income	9,733,591	8,557,072	7,382,233
Other comprehensive income (loss)	(5,728,481)	1,709,495	(594,234)
Total comprehensive income	P4,005,110	P10,266,567	P6,787,999
Net income attributable to:			
Equity holders of the Parent Company	P6,637,673	P4,834,451	P4,147,220
Non-controlling interests	3,095,918	3,722,621	3,235,013
Total comprehensive income attributable to:			
Equity holders of the Parent Company	5,593,952	5,799,803	3,811,656
Non-controlling interests	2,695,099	4,466,764	2,976,343
Dividends declared to non-controlling interests	3,366	35,455	43,209



	2018	2017
	(In Thousands)	
Current assets	P435,407,693	P375,392,442
Noncurrent assets	559,295,135	448,155,535
Current liabilities	776,308,797	664,985,426
Noncurrent liabilities	85,859,497	51,413,216
Equity attributable to:		
Equity holders of the Parent Company	129,639,681	104,504,596
Non-controlling interest	2,894,853	2,644,739

	2018	2017	2016
	(In Thousands)		
Operating	P12,816,916	(P1,637,026)	P28,108,324
Investing	(51,680,279)	(2,913,544)	3,482,266
Financing	40,266,286	4,344,472	2,823,720
Net increase (decrease) in cash and cash equivalents	P1,402,923	(P206,098)	P34,414,310

December 31, 2018

	At Appraised Values			At Cost						
	Land and Land Improvements	Buildings and Plant Improvements	Machineries and Equipment	Subtotal	Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Total
(In Thousands)										
Cost										
Balance at beginning of year	P17,026,911	P19,913,315	P27,511,183	P64,451,409	P5,321,740	P2,167,740	P3,984,854	P11,868,428	P1,011,378	P88,805,549
Additions/transfers (Note 13)	10,121	483,170	902,054	1,395,345	298,272	432,067	242,886	1,398,115	1,368,319	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)	(815,005)	(665,859)	375,613
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	12,452,538	1,713,838	117,517,686
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	-	45,600,316
Depreciation and amortization	236,898	530,550	939,478	1,706,926	302,558	133,048	335,641	941,927	-	3,420,100
Disposals/transfers/others (Note 28)	-	(468,542)	(50,423)	(518,965)	38,361	(22,963)	(35,124)	915,469	-	376,778
Balance at end of year	1,480,271	6,839,475	21,104,677	29,424,423	4,271,514	1,855,409	3,172,144	10,673,702	-	49,397,192
Net Book Value	P38,952,217	P14,108,050	P7,257,494	P60,317,761	P2,575,427	P714,340	P1,020,492	P1,778,836	P1,713,838	P68,120,694

December 31, 2017

	At Appraised Values		At Cost					Total
	Land and Land Improvements	Plant Buildings and Improvements	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	
Cost								
Balance at beginning of year	P16,942,174	P19,564,868	P26,514,896	P1,923,462	P3,223,720	P10,901,017	P206,446	P84,075,742
Additions (Note 13)	13,470	346,206	236,242	264,006	771,092	826,882	886,359	4,328,326
Disposals/transfers/others (Notes 13 and 28)	71,267	2,241	286,339	(19,728)	(9,959)	140,529	(81,427)	401,481
Balance at end of year	17,026,911	19,913,315	27,511,183	2,167,740	3,984,854	11,868,428	1,011,378	88,805,549
Accumulated Depreciation, Amortization and Impairment Losses								
Balance at beginning of year	1,107,997	6,489,033	19,320,860	1,630,938	2,565,411	8,095,290	-	42,801,120
Depreciation and amortization	135,376	596,887	905,270	134,009	309,374	801,164	-	3,180,762
Disposals/transfers/others (Notes 13 and 28)	-	(308,453)	(10,508)	(40,322)	(3,158)	(80,147)	-	(381,566)
Balance at end of year	1,243,373	6,777,467	20,215,622	1,745,325	2,871,627	8,816,307	-	45,600,316
Net Book Value	P15,783,538	P13,135,848	P7,295,561	P422,415	P1,113,227	P3,052,121	P1,011,378	P43,205,233

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:

	2018	2017
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	P6,062,880	P6,802,300
Net revaluation increase	16,737,049	-
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(739,502)	(739,420)
Balance at end of year	P22,060,427	P6,062,880
Attributable to:		
Equity holders of the Company	P12,689,666	P3,733,860
Non-controlling interests	9,370,761	2,329,020
	P22,060,427	P6,062,880

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:

	2018	2017
	(In Thousands)	
Cost		
Land and land improvements	P8,353,580	P7,381,419
Plant buildings and improvements	16,099,902	14,226,250
Machineries and equipment	33,261,229	29,390,400
	57,714,711	50,998,069
Accumulated depreciation		
Land and land improvements	(3,425,704)	(1,179,491)
Plant buildings and improvements	(10,785,065)	(6,224,962)
Machineries and equipment	(15,223,734)	(19,259,849)
	(29,434,503)	(26,664,302)
	P28,280,208	P24,333,767

Depreciation

Depreciation of property, plant and equipment charged to operations is as follows:

	2018	2017	2016
	(As Restated, Note 37)	(As Restated, Note 37)	(As Restated, Note 37)
	(In Thousands)		
Continuing operations:			
Cost of goods sold and services (Note 24)	P945,656	P1,070,108	P850,324
Selling expenses (Note 25)	321,754	330,508	491,555
General and administrative expenses (Note 26)	2,146,521	1,773,982	1,544,004
Discontinued operations (Note 37)	6,169	6,164	400,468
	P3,420,100	P3,180,762	P3,286,351

As of December 31, 2018 and 2017, 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 2018 and 2017, P180.4 million and P163.0 million remain to be unpaid as of December 31, 2018 and 2017, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of P98.3 million and P9.3 million are temporarily idle as of December 31, 2018 and 2017, respectively.



Borrowing Costs

Unamortized capitalized borrowing costs amounted to P11.2 million and P11.9 million as of December 31, 2018 and 2017, 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, 2018				Total
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	
Cost					
Balance at beginning of year	P22,461,823	P10,667,848	P7,620	P2,635,507	P35,772,798
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	P18,579,455	P7,559,870	P–	P4,179,574	P30,318,901

	December 31, 2017				Total
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	
Cost					
Balance at beginning of year	P21,989,899	P10,514,268	P7,620	P2,212,139	P34,723,926
Additions	402,432	396,413	–	1,619,527	2,418,372
Transfers	69,492	(242,833)	–	(1,196,159)	(1,369,500)
Balance at end of year	22,461,823	10,667,848	7,620	2,635,507	35,772,798
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,383,693	3,115,240	7,620	–	6,506,553
Depreciation/transfers	–	344,999	–	–	344,999
Provision for impairment losses	10,164	20,289	–	–	30,453
Balance at end of year	3,393,857	3,480,528	7,620	–	6,882,005
Net Book Value	P19,067,966	P7,187,320	P–	P2,635,507	P28,890,793

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 P307.8 million and P115.9 million as of December 31, 2018 and 2017, 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 P4.7 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, 2018 and 2017, 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, 2018, which were determined by professionally qualified, accredited and independent appraisers based on market values (in thousands):

Land	P37,007,466
Buildings and improvements	16,935,051
	<u>P53,942,517</u>

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 P1,494.7 million and P373.6 million in 2018, P1,388.0 million and P308.4 million in 2017 and P1,278.4 million and P253.8 million in 2016, 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:

	2018	2017	2016
	(In Thousands)		
Cost of rental income (Note 24)	P336,779	P184,504	P137,457
General and administrative expenses (Note 26)	77,381	160,495	123,570
	P414,160	P344,999	P261,027

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2018	2017
	<i>(In Thousands)</i>	
Software costs	P2,306,565	P2,288,924
Advances to suppliers	1,838,352	1,012,209
Prepaid excise taxes (Note 38)	797,388	–
Deferred charges	558,225	573,743
Checks for clearing	499,792	285,676
Deferred input VAT	347,974	324,666
Refundable and security deposits	308,237	231,292
Distribution network access	294,994	286,751
Net retirement plan assets (Note 23)	280,464	273,710
Goodwill	163,735	163,735
Chattel properties - net	109,265	149,347
Deposit for purchase of land	–	700,000
Other investments	–	26,309
Others - net	225,301	350,841
	7,730,292	6,667,203
Allowance for probable losses	(1,178,970)	(954,456)
	P6,551,322	P5,712,747

a. Movements in software costs are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	P2,288,924	P1,448,022
Additions	719,376	1,113,038
Amortization (Note 26)	(375,042)	(195,962)
Other adjustments	(326,693)	(76,174)
Balance at end of year	P2,306,565	P2,288,924

Additions to software costs pertain primarily to the upgrade of the core banking system of the banking segment.

b. Deposit for purchase of land pertains to the deposit and earnest money paid by FTC for the acquired properties amounting to P500.0 million and P200.0 million, respectively.

c. The distribution network access, which was acquired on March 31, 2017, covers APB Myanmar's relations with Myanmar Distribution Group, its exclusive distributor.

d. 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.

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 P308.2 million and P231.3 million as of December 31, 2018 and 2017, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

g. The Group recognized goodwill which pertains mainly to ADI and Eton amounting to P144.7 million and P19.0 million, respectively. As of December 31, 2018 and 2017, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI and Eton.

i. 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 9.7% and 11.2% in 2018 and 2017, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.2% as of December 31, 2018 and 4.9% as of December 31, 2017. 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, 2018 and 2017, the recoverable amount of ADI is higher than its carrying value.

h. As of December 31, 2018 and 2017, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to P105.9 million and P96.1 million, respectively.

i. The Group has receivable from OPIL, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2018 and 2017, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPIL, 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 OPIL for the sale of the NPAs were executed on December 19, 2006. OPIL was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPIL has been financed through the issuance of equity securities and subordinated debt securities. Collections from OPIL in 2016 amounting to P500.0 million are recorded under "Other income (charges)" (see Note 28).

15. Deposit Liabilities

	2018	2017
	<i>(In Thousands)</i>	
Demand	P153,065,163	P125,581,889
Savings	387,882,302	341,182,647
Time	178,613,954	160,915,991
	719,561,419	627,680,527
Presented as noncurrent	(47,219,123)	(39,286,226)
	P672,342,296	P588,394,301

Of the total deposit liabilities of the Group, P28.6 billion and P28.9 billion are non-interest bearing as of December 31, 2018 and 2017, respectively. Annual interest rates of the deposit liabilities follow:

	2018	2017
Foreign-currency denominated deposit liabilities	0.01% to 8.00%	0.00% to 2.10%
Peso-denominated deposit liabilities	0.00% to 10.00%	0.01% to 4.13%

Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 18.00% and 8.00%, respectively. As of December 31, 2018 and 2017, available reserves booked under "Due from BSP" amounted to P101.0 billion and P99.3 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):

Issue Date	Maturity Date	Face Value (In Thousands)	Carrying Value (In Thousands)	Coupon Rate	Interest Repayment Terms
October 26, 2017	April 26, 2023	P6,350,000	P6,310,032	3.88%	Quarterly
April 27, 2017	October 27, 2022	3,765,000	3,743,546	3.75%	Quarterly
December 6, 2016	June 6, 2022	5,380,000	5,349,341	3.25%	Quarterly
December 12, 2014	June 12, 2020	7,000,000	6,976,118	4.13%	Quarterly
October 21, 2013	April 22, 2019	4,000,000	3,992,376	3.25%	Quarterly
August 5, 2013	February 5, 2019	5,000,000	4,992,542	3.00%	Quarterly
November 18, 2011	February 17, 2017	3,100,000	—	5.18%	Quarterly

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.
- 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.

- 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.

- 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.

- 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.

- The LTNCDs are insured by the PDIC up to a maximum amount of P0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

- 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 P7.7 billion, P4.8 billion and P3.8 billion in 2018, 2017 and 2016, respectively (see Note 24).

In 2018, 2017 and 2016, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to P39.5 million, P32.1 million and P25.3 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P91.8 million and P131.0 million as of December 31, 2018 and 2017, 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 P470.6 million and P343.5 million as of December 31, 2018 and 2017 respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2018	2017
	(In Thousands)	
Bills payable to:		
BSP and local banks (Note 22)	P67,792,569	P41,435,696
Foreign banks	521,405	157,849
Others	3,000	91,255
	68,316,974	41,684,800
Acceptances outstanding	1,765,861	2,231,887
	70,082,835	43,916,687
Presented as noncurrent	(9,533,590)	(7,282,350)
	P60,549,245	P36,634,337

Annual interest rates are shown below:

	2018	2017	2016
Foreign currency-denominated borrowings	0.04% to 4.41%	0.05% to 3.61%	0.30% to 1.75%
Peso-denominated borrowings	0.63% to 5.37%	0.63%	0.63%

PNB's bills payable to BSP includes the transferred liabilities from Maybank amounting to P1.8 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 P7.4 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 (P7.5 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 (P49.7 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, 2018 and 2017, the unamortized transaction cost of the syndicated borrowing amounted to P32.7 million.

As of December 31, 2018, bills payable with a carrying amount of P48.0 billion is secured by a pledge of certain financial assets at FVTOCI with carrying value and fair value of P21.5 billion and financial assets at amortized cost with carrying value and fair value of P36.3 billion and P38.5 billion, respectively (see Note 7).

As of December 31, 2017, bills payable with a carrying amount of P35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of P26.7 billion and HTM investments with carrying value and fair value of P16.5 billion and P17.8 billion, respectively (see Note 7).

Following are the significant terms and conditions of the repurchase agreements entered into by PNB:

- 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;
- The term or life of this borrowing is up to three years;
- Some borrowings bear a fixed interest rate while others have floating interest rate;
- PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;
- Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
- Certain borrowings are subject to margin call up to US\$ 1.4 million; and
- 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 P0.7 billion in 2018, P0.7 billion in 2017 and P1.0 billion in 2016 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2018	2017
	<i>(In Thousands)</i>	
Trade payables	P11,622,664	P11,895,949
Nontrade payables	608,134	776,558
Accrued expenses:		
Other benefits - monetary value of leave credits	1,648,520	1,637,877
Purchase of materials and supplies and others	1,617,040	1,266,078
Interest	1,529,514	632,907
Project development costs	1,097,299	707,328
Retention payable	924,505	799,105
Advertising and promotional expenses	804,477	484,827
Taxes and licenses	784,500	861,390
PDIC insurance premiums	716,041	660,290
Rent and utilities payable	365,446	1,165,156
Information technology-related expenses	145,206	204,666
Due to government agencies	107,104	464,911
Output value added tax	113,898	66,500
Other payables	432,134	400,430
	P22,516,482	P22,023,972

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

Accrued 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, 2018 and 2017, outstanding unsecured short-term debts amounted to P2,050.0 million and P1,550.0 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 7.0% in 2018 and 2017, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks. In 2015, the Group obtained additional short-term loans from BDO amounting to P1.1 billion which are payable in lump-sum after 60 days.

Long-term Debts

	2018	2017
	(In Thousands)	
Bonds payable	P15,661,372	P-
Unsecured term loan	2,893,952	1,475,466
Notes payable	90,829	114,681
	18,646,153	1,590,147
Current portion	(90,829)	(114,681)
	P18,555,324	P1,475,466

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, 2018, the unamortized transaction cost of bonds payable amounted to P116.3 million. Amortization of transaction costs amounting to P12.2 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income (Note 19).

PNB's Subordinated Debts

5.875% P3.5 Billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of P3.5 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 P3.5 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% P6.5 Billion Subordinated Notes

On June 15, 2011, PNB's BOD approved the issuance of unsecured subordinated notes of P6.5 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 P6.5 billion to all noteholders as of June 1, 2016.

In 2018, 2017 and 2016, amortization of transaction costs amounting to nil, P2.2 million and P11.4 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 P2.0 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 P1.5 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 P5.0 billion to finance the construction of the Eton's projects. On July 31, 2018, P0.5 billion was initially drawn and an additional P1.0 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.

Notes payable of Eton

Notes payable include various notes from BDO which arose from the assignment of Eton's contract receivables on a with recourse basis in 2013 and 2012 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts tax. In 2016 and 2015, interest rates ranged from 5.10% to 6.66%, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first. In 2016, the outstanding notes payable were fully paid by Eton.

Interest on loans payable from general borrowings capitalized as part of real estate inventories amounted to P61.9 million in 2015 wherein capitalization rate was 4.5%. The Group stopped capitalizing interest on loans payable as construction of projects involved in the loans are substantially done as of December 31, 2016.

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, 2018 and 2017, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. Other Liabilities

	2018	2017
	(In Thousands)	
Managers' checks and demand drafts outstanding	P2,610,460	P2,345,787
Bills purchased - contra (Note 8)	1,396,318	1,323,896
Customers' deposits	1,115,106	987,862
Other dormant credits	926,566	1,078,052
Due to other banks	1,319,838	1,212,436
Payable to landowners	911,826	1,505,191
Deposit on lease contracts	823,968	890,736
Other deferred revenue (Note 12)	857,493	866,473
Provisions (Note 38)	715,776	969,107
Payment order payable	632,477	—
Due to Treasurer of the Philippines	571,235	574,261
Withholding taxes payable	513,136	283,471
Tenants' rental deposits	1,026,379	452,372
Miscellaneous tax securities	216,165	295,250
Advance rentals	104,566	51,786
Margin deposits and cash letters of credit	44,383	55,058
Insurance contract liabilities	—	4,929,392
Reserve for unearned premiums	—	1,273,279
Others	695,078	790,792
	14,480,770	19,885,201
Presented as noncurrent	(5,864,593)	(4,718,832)
	P8,616,177	P15,166,369

Payables to Landowners

In various dates in 2014, Eton executed a P1,061.2 million promissory note, subject to interest rate of PDSTF 3 years +0.50%, to various landowners in relation to its purchase of land located in Laguna with total purchase price of P1.3 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 P65.9 million, P100.5 million and P180.7 million in 2018, 2017 and 2016, respectively, net of capitalized portion amounting to P13.5 million in 2018 and 2017 and nil in 2016 (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 P1.1 billion and P1.0 billion as of December 31, 2018 and 2017, 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 below 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, 2018 and 2017 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2018				December 31, 2017			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
	(In Thousands)							
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	P1,710	P97,106	53.11	482,974	P11,347	P87,446	50.44	573,545
JPY	24,985	16	0.01	6,018,002	8,413	44,371	0.01	16,555,042
HKD	874	36	0.13	219,355	1,548	102	0.13	211,050
CNY	33	—	0.14	1,000	—	—	—	—
GBP	211	—	1.26	1,100	72	—	1.34	518
EUR	60,822	74,001	1.15	385,712	98	—	1.19	3,328
CAD	—	—	—	—	108	—	0.78	1,258
SGD	—	—	—	—	3	—	0.75	50
SELL:								
USD	119,480	2,965	52.98	690,340	222,225	4,382	50.44	680,164
CAD	1,365	—	0.75	2,005	—	328	0.79	2,705
GBP	—	428	1.27	3,700	142	857	1.34	6,560
CHF	7	—	0.99	200	28	—	1.02	200
HKD	536	51,122	50.13	5276,171	5102	5207	50.13	539,059
EUR	—	432	1.14	3,618	—	891	1.19	2,990
JPY	91	9,469	0.01	1,121,000	33,105	529	0.01	6,766,560
SGD	—	14	0.73	200	—	—	—	—
AUD	72	—	0.71	500	—	—	—	—
NZD	—	—	—	—	13	—	0.71	150
Interest rate swaps	307,089	284,959	—	—	230,842	204,409	—	—
	57,853	—	—	—	54,938	—	—	—
	P574,628	P470,548			P562,984	P343,522		

* 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, 2018 and 2017, PNB holds 275,075 shares and 306,405 shares of ROP Warrants Series B1 at their fair value of US\$1.1million (P52.58 million) and US\$1.1 million (P54.9 million), respectively.

b. The table below shows the rollforward analysis of net derivatives assets (liabilities):

	2018	2017
	(In Thousands)	
Balance at beginning of year		
Derivative assets	P562,984	P419,122
Derivative liabilities	343,522	232,832
	219,462	186,290
Changes in fair value		
Currency forwards and spots*	(899,453)	136,382
Interest rate swaps and warrants**	161	(7,965)
	(899,614)	128,417
Availments	782,810	(95,245)
Balance at end of year		
Derivative assets	574,628	562,984
Derivative liabilities	470,648	343,522
	P103,980	P219,462

* 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
<i>Parent Company</i>	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
<i>Subsidiaries</i>	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 Construct, 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.
(Forward)	(Forward)

Parent Company, Subsidiaries, Associates and Joint Ventures	Entities Under Common Control
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.	
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 Pte. Ltd.	
Mabuhay Digital Philippines, Inc.	
Mabuhay Digital Technologies, Inc.	
<i>Associates</i>	
PMFTC	
VMC	
APLII	
AB HPI	
<i>Joint Ventures</i>	
ABI Pascual Holdings	
ABI Pascual Foods	
AEPCD	

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	2018	2017	2016
			<i>(In Thousands)</i>	
Associates	Dividend income	P6,461,118	P4,086,596	P2,555,576
	Purchases of inventories	(624,145)	(971,081)	(1,793,767)
	Sales	629,886	1,094,616	423,335
	Leases	35,100	35,100	4,388
Entities Under Common Control	Banking revenue - interest on loans and receivables	810,967	609,817	388,599
	Sales of consumer products	25,578	28,865	26,752
	Interest income on loans and advances	36,893	18,588	12,853
	Rent income	33,857	32,179	30,647
	Other income	221,417	124,894	150,599
	Freight and handling	(12,258)	(6,937)	(15,004)
	Purchases of inventories	(3,769)	(9,747)	(123,426)
	Cost of banking services - interest expense on deposit liabilities	(189,801)	(75,798)	(25,807)
	Cost of goods sold and services	(1,442)	(41,485)	(38,901)
	Management and professional fees	(549,058)	(566,937)	(263,142)
	Outside services	(71,874)	(52,215)	(62,865)
	Rent expense	(23,721)	(53,361)	(27,890)
Key Management	Advertising expense	(16,136)	(12,329)	—
	Short-term employee benefits	(707,500)	(667,920)	(636,114)
	Post-employment benefits	(77,652)	(77,651)	(72,891)

The consolidated balance sheets include the following asset (liability) account balances with related parties:

Financial Statement Account			Amount/Volume		Outstanding Balance	
			2018	2017	2018	2017
(In Thousands)						
Parent Company	Due to related parties	On demand; non-interest bearing	P–	P–	(P15,325)	(P41,975)
	Due from related parties	On demand; non-interest bearing	–	189,000	509,000	509,000
Associates	Other receivables - dividends	Payable monthly	6,461,118	4,086,596	513,610	513,610
	Trade receivables	- do -	629,886	1,094,616	800,524	861,794
	Nontrade receivables	- do -	4,314	–	137,005	132,691
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(624,145)	(971,081)	(398,177)	(352,649)
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						
Entities Under Common Control	Finance receivables		810,967	609,817	29,960,818	23,881,936
	Trade receivables	- do -	25,578	28,865	18,396	7,743
	Other receivables	- do -	221,417	124,894	16,730	28,594
	Due from related parties	On demand; non-interest bearing	(677)	(83,519)	1,519,632	1,519,625
	Advances to suppliers	- do -	(1,442)	(26,742)	4,110	–
	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year					
	Deposit liabilities		(29,550,765)	(5,851,911)	16,054,153	(13,496,612)
Account payable and other liabilities						
	30 to 90 days terms; non-interest bearing	(7,816)	(76,848)	(295,670)	(343,190)	
	Due to related parties	On demand; non-interest bearing	(22,301)	(22,620)	(64,874)	(14,867)
	Other payables	30 to 90 days terms; non-interest bearing	–	(6,213)	–	–

As of December 31, 2018 and 2017, 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 March 13, 2018 and March 14, 2017, LTG declared cash dividends of P0.20 and P0.18 per share to all stockholders of record as of March 28, 2018 and March 29, 2017, respectively, of which P1.6 billion in 2018 and P1.4 billion in 2017 were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to P6.5 billion in 2018 and P4.1 billion in 2017 (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, 2018 and 2017, the related rent receivable for the lease of land amounted to P74.6 million and P35.1 million, respectively.
- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to P423.3 million. In 2018 and 2017, 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, 2017 and 2016, 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:

	2018	2017
(In Thousands)		
Net retirement plan assets:		
FTC	P250,314	P241,729
TDI	15,138	15,515
AAC	6,270	8,286
LTG	8,742	8,180
	P280,464	P273,710
Net retirement benefits liabilities:		
PNB	P1,221,893	P1,526,962
ABI and subsidiaries	363,324	588,227
ADI	19,230	21,797
Eton	31,754	68,243
	P1,636,201	P2,205,229



The following tables summarize the components of net retirement plan assets and net retirement benefits liability recognized in the consolidated balance sheets, 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:

	2018			2017			2016		
	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
<i>(In Thousands)</i>									
Beginning balance	P233,740	(P507,450)	(P273,710)	P228,448	(P505,318)	(P276,870)	P161,701	(P417,417)	(P255,716)
Change in status of retirement plan	–	–	–	–	–	–	96,347	(82,267)	14,080
Net retirement benefits expense									
(income) in profit or loss:									
Current service cost	18,885	–	18,885	18,376	–	18,376	17,832	–	17,832
Net interest cost	8,549	(23,948)	(15,399)	7,581	(21,823)	(14,242)	9,126	(21,674)	(12,548)
	27,434	(23,948)	3,486	25,957	(21,823)	4,134	26,958	(21,674)	5,284
Contributions	–	(1,733)	(1,733)	–	(1,200)	(1,200)	–	(2,252)	(2,252)
Benefits paid	(27,160)	27,160	–	(10,487)	10,487	–	(2,820)	2,820	–
Remeasurement losses (gains)									
in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	(27,330)	–	(27,330)	(8,250)	–	(8,250)	(38,796)	–	(38,796)
Demographic assumptions	–	–	–	–	–	–	(851)	–	(851)
Experience adjustments	(5,654)	24,477	18,823	(1,928)	10,404	8,476	(14,091)	15,472	1,381
	(32,984)	24,477	(8,507)	(10,178)	10,404	226	(53,738)	15,472	(38,266)
Ending balance	P201,030	(P481,494)	(P280,464)	P233,740	(P507,450)	(P273,710)	P228,448	(P505,318)	(P276,870)

Net retirement benefits liabilities:

	2018			2017			2016		
	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
<i>(In Thousands)</i>									
Beginning balance	P9,469,170	(P7,263,941)	P2,205,229	P10,193,817	(P6,294,475)	P3,899,342	P9,666,274	(P5,765,348)	P3,900,926
Change in status of retirement plan	–	–	–	–	–	–	(96,347)	82,267	(14,080)
Net retirement benefits cost in profit or loss:									
Current service cost	662,867	–	662,867	756,172	–	756,172	701,627	–	701,627
Net interest cost	361,569	(255,638)	105,931	435,361	(234,088)	201,273	377,343	(190,977)	186,366
Past service cost	361,144	–	361,144	–	–	–	–	–	–
	1,385,580	(255,638)	1,129,942	1,191,533	(234,088)	957,445	1,078,970	(190,977)	887,993
Contributions	–	(753,351)	(753,351)	–	(1,472,899)	(1,472,899)	–	(1,123,041)	(1,123,041)
Benefits paid from plan assets	(613,540)	613,540	–	(584,444)	584,444	–	(728,330)	650,142	(78,188)
Benefits paid directly from book reserves	(12)	–	(12)	–	–	–	–	–	–
Remeasurement losses (gains)									
in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	(1,079,920)	–	(1,079,920)	(330,733)	–	(330,733)	302,114	–	302,114
Demographic assumptions	(55,844)	–	(55,844)	(682,083)	–	(682,083)	–	–	–
Experience adjustments	92,438	97,719	190,157	(318,920)	153,077	(165,843)	(28,864)	52,482	23,618
	(1,043,326)	97,719	(945,607)	(1,331,736)	153,077	(1,178,659)	273,250	52,482	325,732
Ending balance	P9,197,872	(P7,561,671)	P1,636,201	P9,469,170	(P7,263,941)	P2,205,229	P10,193,817	(P6,294,475)	P3,899,342

The fair value of plan assets as of December 31 is as follows:

	2018	2017
<i>(In Thousands)</i>		
Cash and cash equivalents	P1,138,054	P2,231,422
Receivables	2,266,478	1,927,174
Equity investments:		
Financial institutions	526,927	448,357
Other	332,518	412,674
Debt investments:		
Investment in private debt securities	2,380,927	–
Investments in government securities	1,369,171	2,731,468
Others	29,090	20,296
Fair value of plan assets	P8,043,165	P7,771,391

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2018	2017
Cash and cash equivalents	14%	29%
Receivables	28%	25%
Equity investments	11%	11%
Debt investments	47%	35%
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:

	2018	2017	2016
Discount rate	6%-8%	5%-6%	4%-5%
Future salary increases	5%-10%	5%-10%	5%-10%

As of December 31, 2018, the discount and future salary increase rates are 6%-8% and 4-10%, 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*):

	2018		2017	
	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%	(P442,591)	+0.5%	(P486,672)
	-0.50%	493,225	-0.5%	604,116
Future salary increases	1.00%	520,535	+1.0%	640,688
	-1.00%	(473,867)	-1.0%	(517,408)

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*):

	2018	2017
One year and less	P1,104,046	P1,016,792
More than one year up to five years	4,295,709	3,644,928
More than five years up to 10 years	5,092,120	4,758,391
More than 10 years up to 15 years	4,077,971	4,278,443
More than 15 years	41,143,623	46,775,963

The Group expects to contribute P1.4 billion to the defined benefit pension plan in 2018. The average duration of the defined benefit obligations at the end of the reporting period range from 16.5 to 27 years as of December 31, 2018 and 15 to 24 years as of December 31, 2017.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2018 and 2017, the retirement fund of the Group includes 7,513,746 and 7,856,328 shares of PNB 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, 2018 and 2017, financial assets at FVTPL and HTM investments 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:

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Banking revenue (Note 5)	P40,172,558	P31,840,282	P29,142,262
Sale of consumer goods	32,188,132	29,653,729	25,836,669
Rental income (Note 13)	1,494,724	1,388,010	1,278,447
Real estate sales	1,704,011	845,053	1,573,067
	P75,559,425	P63,727,074	P57,830,445

Dissaggregated 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, 2018 (*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	P32,188,132	P—	P—	P32,188,132
Service fees and commission income (Note 5)	4,251,692	—	—	4,251,692
Real estate sales	—	1,704,011	—	1,704,011
Interest income	—	—	35,775,002	35,775,002
Rental income	—	—	1,494,724	1,494,724
Trading and securities gains - net	—	—	145,864	145,864
	P36,439,824	P1,704,011	P37,415,590	P75,559,425

Banking revenue consists of:

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Interest income on:			
Loans and receivables	P29,966,048	P22,400,914	P19,504,896
Trading and investment securities (Note 21)	4,653,756	3,386,209	3,997,203
Deposits with banks and others	775,820	1,324,527	592,088
Interbank loans receivable	379,378	185,833	33,862
	35,775,002	27,297,483	24,128,049
Service fees and commission income	4,251,692	3,982,496	3,635,656
Trading and securities gains - net	145,864	560,303	1,378,557
	P40,172,558	P31,840,282	P29,142,262

Sale of consumer goods consists of:

	2018	2017	2016
	<i>(In Thousands)</i>		
Gross sales	P34,671,217	P31,557,067	P27,810,969
Less sales returns, discounts and allowances	2,483,085	1,903,338	1,974,300
	P32,188,132	P29,653,729	P25,836,669

Cost of goods sold and services consists of:

	2018	2017	2016
	<i>(In Thousands)</i>		
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	P17,046,895	P12,221,165	P10,859,240
Depreciation and amortization (Note 12)	1,457,186	1,420,401	1,078,798
Fuel and power	1,156,867	915,246	642,949
Taxes and licenses	1,095,280	4,521,002	3,800,493
Personnel costs	952,168	841,325	531,912
Communication, light and water	803,313	765,499	653,102
Outside services	469,040	458,124	843,531
Repairs and maintenance	440,679	412,990	408,766
Freight and handling	278,824	228,191	148,005
Others	1,097,523	851,317	134,522
	24,797,775	22,635,260	19,101,318
Cost of banking services	9,584,973	6,302,228	5,682,707
Cost of real estate sales (Note 9)	1,209,101	433,875	1,089,026
Cost of rental income (Note 13)	373,553	308,447	253,830
Cost of goods sold and services	P35,965,402	P29,679,810	P26,126,881



Other expenses include insurance, utilities and outside services which are individually not significant as to amounts.

Cost of banking services consist of:

	2018	2017	2016
	(In Thousands)		
Interest expense on:			
Deposit liabilities (Note 15)	P7,672,146	P4,767,830	P3,770,558
Services fees and commission expense	773,082	786,917	914,528
Bills payable and other borrowings (Notes 7 and 17)	662,340	747,481	997,621
Bonds payable	477,405	—	—
	P9,584,973	P6,302,228	P5,682,707

25. Selling Expenses

	2018	2017	2016
	(In Thousands)		
Advertising and promotions	P1,222,569	P1,268,650	P1,019,650
Freight and handling	511,970	500,420	380,180
Depreciation and amortization (Note 12)	321,754	330,508	491,555
Managament, consulting and professional fees	154,138	137,136	128,990
Personnel costs	128,334	131,429	98,626
Commissions	85,455	35,364	40,183
Royalties	63,680	49,663	22,302
Fuel and oil	59,270	39,783	19,487
Materials and consumables	19,485	12,167	79,428
Repairs and maintenance	12,723	40,957	52,922
Others	121,009	146,348	18,199
	P2,700,387	P2,692,425	P2,351,522

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

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
	(In Thousands)		
Personnel costs	P10,145,421	P9,680,647	P9,005,453
Taxes and licenses	4,061,037	2,791,913	2,403,014
Depreciation and amortization (Notes 12, 13 and 14)	2,146,521	1,780,146	1,549,080
Occupancy	1,754,360	1,584,930	1,536,063
Provision for credit losses (Note 8)	1,694,883	1,211,683	2,817,432
Outside services	1,692,528	1,519,014	1,471,963
Insurance	1,622,893	1,457,699	1,156,159
Marketing and promotional	1,170,997	928,613	1,064,993
Management, consulting and professional fees	947,377	933,482	993,847
Information technology	561,597	446,393	499,319
Travel and transportation	397,404	355,668	350,788
Materials and consumables	313,388	248,210	300,719
Communication, light and water	301,802	255,531	58,481
Repairs and maintenance	249,940	224,062	224,325
Provision for (reversal of) legal cases and other losses - net (Notes 13 and 38)	(240,110)	(300,730)	404,253
Litigation	73,787	80,139	97,097
Freight and handling	69,940	104,490	45,727
Fuel and oil	12,001	27,355	31,065
Others	1,326,511	1,051,220	1,027,370
	P28,302,277	P24,380,465	P25,037,148

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:

	2018	2017	2016
	(In Thousands)		
Finance costs (Note 19):			
Short-term debts	P100,722	P—	P—
Unsecured term loan and notes payable (Note 20)	44,735	141,937	202,490
	P145,457	P141,937	P202,490
Finance income:			
Cash and other cash items (Note 5)	P172,212	P119,369	P55,164
Interest-bearing contracts receivable (Note 8)	14,324	16,473	41,673
FVTPL (Note 6)	20,105	20,183	6,279
AFS investments (Note 7)	—	1,075	3,310
	P206,641	P157,100	P106,426

28. Other Income (Charges)

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
	(In Thousands)		
Net gains on sale or exchange of assets	P6,086,834	P4,163,507	P1,823,200
Marketing allowance and income from wire transfers	479,053	355,224	—
Rental income and dues (Note 13)	766,295	597,612	460,224
Dividend income	87,517	62,143	53,729
Recoveries from charged off assets	58,584	67,582	729,594
Mark-to-market gain on financial assets designated at FVTPL (Note 6)	17,234	59,513	62,955
Gain on retirement	6,644	6,869	—
Referral, processing and trust fees	3,011	3,448	2,811
Gain on disposal of AFS investments	—	7,914	—
Gain on re-measurement of a previously held interest (Note 11)	—	—	1,644,339
Share in net losses of associates and a joint venture (Note 11)	—	—	(513,266)
Recovery from insurance claims (Note 38)	—	—	5,271
Others	332,736	19,348	54,955
	P7,837,908	P5,343,160	P4,323,812

a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2018, 2017 and 2016 amounting to P5,703.5 million, P3,755.5 million and P1,496.5 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 transactions with 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.

Details of the Group's deferred income tax assets and liabilities as of December 31 follow:

	2018		2017	
	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax Liabilities ⁽²⁾	Net Deferred Income Tax Assets ⁽³⁾	Net Deferred Income Tax Liabilities ⁽⁴⁾
<i>(In Thousands)</i>				
<i>Recognized directly in the consolidated statements of income:</i>				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	P5,824,073	P81,379	P5,581,034	P12,270
Inventories	1,440	1,223	1,440	3,282
Property, plant and equipment	—	50,678	—	51,333
Accumulated depreciation on investment properties	565,226	—	607,838	—
Unrealized losses on:				
Sale of property to a subsidiary	384,523	—	384,523	4,529
Inventory on hand	—	—	—	4,675
Deferred rent income	168,330	—	—	—
Net retirement benefits liabilities	131,813	212,288	134,581	199,511
Reserves and others	102,346	14,801	6,263	53,637
Deferred rent expense	60,835	22	52,531	—
Advance rentals	29,917	—	25,278	—
Accrued expenses	19,267	—	14,395	—
Difference between accounting and tax carrying amount of property, plant and equipment	16,059	—	6,037	—
Difference between tax and book basis of accounting for real estate and banking transactions	6,724	—	5,092	—
Excess MCIT	6,634	—	13,624	3,315
Unamortized past service cost	505	8,629	904	7,955
Reserve for unearned premiums	—	—	8,871	—
NOLCO	—	—	10,217	11,617
Provision for losses	—	—	—	4,396
	7,317,692	369,020	6,852,628	356,520
Deferred income tax liabilities on:				
Fair value gain on investment properties	(1,248,724)	(2,850)	(1,615,523)	—
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	(620,039)	(33,472)	—	(13,952)
Gain on remeasurement of a previously held interest	(164,429)	—	(160,272)	—
Unrealized foreign exchange gains	(124,753)	(15,951)	(1,024,651)	(1,337)
Borrowing cost capitalized to property, plant, and equipment	(61,306)	(9,277)	(25,095)	(10,293)
Deferred rental income	(40,884)	(22,376)	(44,346)	(12,206)
Difference between tax and book basis of accounting for real estate transactions	(14,133)	—	(27,117)	—
Unamortized debt cost	(7,383)	—	(7,948)	—
Gain on asset share swap	—	(443,110)	—	—
Net retirement plan assets	—	(115,032)	—	(115,718)
Net changes in fair values of FVTPL financial assets	—	(4,940)	(164,480)	(25,503)
Others	(118,418)	(18,619)	(76,280)	(371)
	(2,400,069)	(665,627)	(3,145,712)	(179,380)
	4,917,623	(296,607)	3,706,916	177,140
<i>Recognized directly in equity:</i>				
Deferred income tax assets on:				
Remeasurement losses on retirement benefits	—	31,382	2,787	33,622
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	(2,878,457)	(8,133,399)	(2,139,125)	(1,495,330)
Remeasurement gains on defined benefit plans	(140,122)	(133,745)	(109,689)	(65,738)
Unrealized gains on changes in fair value of financial assets at FVTOCI	—	(278,635)	—	(64,042)
	(3,018,579)	(8,545,779)	(2,248,814)	(1,625,110)
	(3,018,579)	(8,514,397)	(2,246,027)	(1,591,488)
	P1,899,044	(P8,811,004)	P1,460,889	(P1,414,348)

(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:

	2018	2017	2016
	<i>(In Thousands)</i>		
RCIT	P3,947,978	P2,957,961	P2,008,222
MCIT	6,750	11,350	10,050
Final tax	830,958	636,527	505,042
Provision for current income tax	P4,785,686	P3,605,838	P2,523,314

c. As of December 31, 2018 and 2017, 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:

	2018	2017
	<i>(In Thousands)</i>	
Allowance for credit losses	P4,757,081	P1,817,955
Accrued expenses	2,883,285	473,101
Net retirement benefits liability	2,474,408	455,720
Unrealized loss on AFS investments	1,173,243	—
Unearned income	—	106,881
Derivative liabilities	182,904	103,025
Unamortized past service cost	1,241,452	41,228
Allowance for inventory obsolescence	10,894	—
NOLCO	326,066	414,175
Excess MCIT	10,040	18,733
Others	153,134	70,760

Details of the Group's NOLCO follow *(in thousands)*:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2015	P314,584	(P35,556)	(P279,028)	P—	2018
2016	165,341	(2,668)	—	162,673	2019
2017	7,030	—	—	7,030	2020
2018	156,363	—	—	156,363	2021
	P643,318	(P38,224)	(P279,028)	P326,066	

Details of the Group's MCIT follow *(in thousands)*:

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2015	P14,272	(P3,754)	(P10,518)	P—	2018
2016	10,050	—	—	10,050	2019
2017	11,350	—	—	11,350	2020
2018	6,750	—	—	6,750	2021
	P42,422	(P3,754)	(P10,518)	P28,150	

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:

	2018	2017	2016
	<i>(In Thousands)</i>		
Provision for income tax at statutory income tax rate from:			
Continuing operations	P7,664,410	P5,400,018	P3,858,656
Discontinued operations	58,983	23,295	437,659
	7,723,393	5,423,313	4,296,315
Adjustments resulting from:			
Equity in net earnings of associates	(1,717,520)	(1,188,987)	(813,462)
Income subjected to final tax	(982,900)	(922,414)	(618,319)
Nontaxable income	(549,727)	(442,855)	(126,066)
Non-deductible expenses	314,284	400,757	354,889
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	64,685	306,365	284,487
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	(37,435)	(52,926)	(333,810)
Nontaxable gain on remeasurement	—	—	(493,302)
Nontaxable gain on investment in an associate arising from contribution of non-monetary assets	—	—	(316,872)
Difference of itemized deduction against 40% of taxable income	—	(26,198)	(1,965)

(Forward)

	2018	2017	2016
	<i>(In Thousands)</i>		
Others	(P21,619)	P—	P—
Provision for income tax	P4,793,161	P3,497,055	P2,231,895
Provision for income tax from continuing operations	P4,769,800	P3,489,777	P2,166,769
Provision for income tax from discontinued operations	23,361	7,278	65,126
Provision for income tax	P4,793,161	P3,497,055	P2,231,895

30. Equity

Capital Stock

Authorized and issued capital stock of the Company are as follows:

Authorized capital stock at P1 par value	
At beginning and end of year	25,000,000,000 shares
Issued capital stock at P1 par value:	
At beginning and end of year	P10,821,388,889

a. Capital stock is held by a total of 370 and 369 stockholders as of December 31, 2018 and 2017, respectively.

b. Track record of registration:

Date	Number of Shares	Issue/Offer Price
August 1948	100,000	P1.00
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 P37.7 billion, where excess over par value amounting to P35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to P1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to P59.0 million were charged directly to "General and administrative expenses".

Retained Earnings and Dividends

a. On May 12, 2015, LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of P0.15 per share or a total of P1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.

b. On April 12, 2016, LTG's BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of P0.15 per share or a total of P1,623.2 million to all shareholders of record as of April 28, 2016 and to be paid out not later than May 6, 2016.

c. On March 28, 2018, LTG's BOD approved the declaration and distribution of regular cash dividends of 0.15 per share and special cash dividends of P0.05 per share or a total of 2,164.3 million to all stockholders of record as of March 28, 2018.

d. Retained earnings include undistributed earnings amounting to P76.4 billion in 2018, P65.5 billion in 2017 and P55.7 billion in 2016, 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, 2018 amounted to P14.5 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, 2018 and 2017.

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 P1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments 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 P7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to P6.0 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 P6.0 billion and additional conversion of advances to preferred shares during the year of P4.7 billion were issued to Tangent. As of December 31, 2018 and 2017, preferred shares of the subsidiary issued to the Parent Company amounted to P18.1 billion.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2018	2017	2016
	<i>(In Thousands)</i>		
Balance as of January 1, as previously reported	P47,000,912	P42,506,591	P40,882,077
Effect of adoption of:			
PFRS 9	(712,042)	—	—
PFRS 15	(106)	—	—
Balance as of January 1, as adjusted	46,288,764	42,506,591	40,882,077
Net income attributable to non-controlling interests	4,363,483	3,749,883	2,698,749
Share in other comprehensive income, net of deferred income tax effect:			
Revaluation increment on property plant and equipment	10,164,156	—	—
Cumulative translation adjustments	282,883	218,809	131,789
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	254,047	416,293	(199,210)
Net changes in AFS investments (Note 7)	74,783	134,878	(191,249)
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	(19,357)	—	(543,751)
Effect of changes in ownership interest (Note 37)	—	—	(271,814)
Balance as of December 31	P61,346,104	P47,000,912	P42,506,591

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:

	2018	2017	2016
	<i>(In Thousands)</i>		
Net income attributable to equity holders of the Company	P16,194,778	P10,830,773	P9,390,407
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	P1.50	P1.00	P0.87

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, 2018 and 2017 consist of (in thousands):

Equity adjustments arising from business combination under common control (Note 1)	P445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	193,212
Effect of transaction with non-controlling interest	66,658
Effect of sale of a subsidiary to Company	99,655
Effect of sale of direct interest in a subsidiary	(543)
	P804,095

Shares of Stock of the Company Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to P12.5 million as of December 31, 2018 and 2017 and 76.5 million shares owned by Saturn amounting to P150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at P4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to P193.2 million is presented as an addition to other equity reserves.

Earnings per share attributable to equity holders of the Group from continuing operations:

	2018	2017	2016
	<i>(In Thousands)</i>		
Net income from continuing operations attributable to equity holders of the Company	P15,974,806	P10,830,773	P9,342,679
Divided by weighted-average number of shares	10,821,389	10,821,389	10,821,389
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	P1.48	P1.00	P0.86

There are no potential common shares with dilutive effect on the basic earnings per share in 2018, 2017 and 2016.



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)
- Strategic 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, demographics, 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 exposure represents 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 the derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated balance sheet.

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 collaterals 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:

	2018			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Securities held under agreements to resell	P20,700	P19,947	P753	P19,947
Loans and receivables:				
Receivables from customers*:				
Corporates	471,255	349,173	122,081	349,173
LGU	6,850	203	6,647	203
Credit Cards	12,336	—	12,336	—
Retail SME	11,079	19,751	—	11,079
Housing Loans	32,570	32,011	559	32,011
Auto Loans	11,512	10,948	564	10,948
Others	16,989	13,689	3,300	13,689
Other receivables	18,455	11,841	6,614	11,841
	P601,746	P457,563	P152,854	P448,891

* Receivables from customers exclude residual value of the leased asset.

	2017			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Securities held under agreements to resell	P14,621	P14,473	P148	P14,473
Loans and receivables:				
Receivable from customers*:				
Business loans	408,977	573,329	280,657	128,320
Consumers	45,972	36,704	31,580	14,392
GOCCs and National Government Agencies (NGAs)	17,429	15,117	2,312	15,117
LGUs	7,177	1,024	6,701	475
Fringe benefits	516	553	299	217
Unquoted debt securities	14,674	—	14,674	—
Other receivables	22,461	16,086	21,585	877
	P531,827	P657,286	P357,956	P173,871

* Receivables from customers exclude residual value of the leased asset.

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet 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 follows:

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:

	2018	2017
	(In Millions)	
Philippines	P797,159	P675,612
Asia (excluding the Philippines)	75,285	56,927
USA and Canada	14,328	12,225
Oceania	1,684	3,399
Other European Union Countries	1,573	2,448
United Kingdom	8,449	9,318
Middle East	17	11
	P898,495	P759,940

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:

	2018			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	P91,268	P32,396	P132,939	P256,603
Wholesale and retail	82,913	—	—	82,913
Electricity, gas and water	72,397	3,825	—	76,222
Transport, storage and communication	42,057	244	—	42,301
Manufacturing	49,252	446	—	49,698
Public administration and defense	18,008	—	—	18,008
Agriculture, hunting and forestry	7,294	—	—	7,294
Secondary target industry:				
Government	962	101,119	22,149	124,230
Real estate, renting and business activities	83,011	240	—	83,251
Construction	25,852	14,605	—	40,457
Others**	108,033	8,571	914	117,518
	P581,047	P161,446	P156,002	P898,495

* 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".



2017				
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	P81,340	P11,386	P52,731	P145,457
Electricity, gas and water	72,591	—	—	72,591
Wholesale and retail	63,607	243	—	63,850
Manufacturing	39,143	256	—	39,399
Transport, storage and communication	30,808	—	—	30,808
Public administration and defense	23,770	—	—	23,770
Agriculture, hunting and forestry	7,139	—	—	7,139
Secondary target industry:				
Government	359	70,845	105,497	176,701
Real estate, renting and business activities	82,786	9,218	—	92,004
Construction	18,743	—	—	18,743
Others**	81,155	7,577	746	89,478
	P501,441	P99,525	P158,974	P759,940

* 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 and 30% for power industry, versus total loan portfolio.

Credit quality per class of financial assets

Beginning January 1, 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 institution, 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.

Loans and Receivables

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-	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Standard S&P Equivalent Global Rating: BB+ to BB-	<p>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.</p> <p>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.</p> <p>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.</p>
Substandard S&P Equivalent Global Rating: B+ to CCC-	<p>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.</p> <p>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.</p>
Impaired S&P Equivalent Global Rating: D	<p>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.</p>

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, 2018:

	2018			
	Stage 1	Stage 2	Stage 3	Total
	(In Millions)			
Subject to CRR				
Non-Retail - Corporate				
High	P246,665	P1,158	P-	P247,823
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	67,797	589	2,660	71,046
Auto Loans	11,682	21	40	11,743
Housing Loans	33,650	36	157	33,843
Retail SME	10,717	139	1,192	12,048
Credit Card	11,748	393	1,271	13,412
Others	16,074	501	2,115	18,690
	106,543	5,899	4,840	117,282
	P553,190	P11,073	P9,565	P573,828

Prior to January 1, 2018

The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-grade CRR System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

Loans and Receivables

The CRRs of the banking segment's receivables from customers (applied to loans with asset size of P15.0 million and above) are defined below:

- **CRR 1 - Excellent**
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.
- **CRR 2 - Super Prime**
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.
- **CRR 3 - Prime**
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.
- **CRR 4 - Very Good**
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned,

but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

- **CRR 5 - Good**
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.
- **CRR 6 - Satisfactory**
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.
- **CRR 7 - Average**
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.
- **CRR 8 - Acceptable**
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.
- **CRR 9 - Fair**
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.
- **CRR 10 - Watchlist**
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.
- **CRR 11 - Special Mention**
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the banking segment.
- **CRR 12 - Substandard**
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.
- **CRR 13 - Doubtful**
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.
- **CRR 14 - Loss**
These are loans or portions thereof which are considered uncollectible or worthless.

The banking segment is using the Credit Scoring for evaluating borrowers with assets size below P15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation.



Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the banking segment's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2017, but net of residual values of leased assets.

	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
<i>(In Millions)</i>				
Rated Receivable from Customers				
1 - Excellent	P4,291	P—	P—	P4,291
2 - Super Prime	44,151	—	—	44,151
3 - Prime	79,626	—	—	79,626
4 - Very Good	51,583	5	—	51,588
5 - Good	41,160	—	—	41,160
6 - Satisfactory	47,553	105	—	47,658
7 - Average	32,300	5	15	32,320
8 - Fair	26,324	1	—	26,325
9 - Marginal	8,112	—	61	8,173
10 - Watchlist	55,367	65	185	55,617
11 - Special Mention	3,030	143	160	3,333
12 - Substandard	958	38	2,245	3,241
13 - Doubtful	—	322	719	1,041
14 - Loss	—	11	2,986	2,997
	P394,455	P695	P6,371	P401,521
Unrated Receivable from Customers				
Consumers	P18,241	P469	P711	P19,421
LGUs	51,342	1,427	218	52,987
Fringe Benefits	7,001	35	150	7,186
GOCCs and NGAs	493	4	13	510
	77,077	1,935	1,092	80,104
	P471,532	P2,630	P7,463	P481,625

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2018					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
	(In Millions)					
Due from BSP ^{1/}	P–	P–	P4,057,938	P4,057,938	P98,665,375	P102,723,313
Due from other banks	8,756,826	5,844,679	2,843,242	17,444,747	3,080,571	20,525,318
Interbank loans receivables	2,514,507	7,463,359	453,379	10,431,245	817,209	11,248,454
Securities held under agreements to resell	–	–	–	–	20,700,000	20,700,000
Financial assets at FVTOCI						
Government securities	1,054,606	–	32,061,889	33,116,495	–	33,116,495
Private debt securities	403,959	4,794,125	4,447,169	9,645,253	8,026,756	17,672,009
Quoted equity securities	–	–	183,148	183,148	616,392	799,540
Unquoted equity securities	–	–	–	–	86,122	86,122
Investment securities at amortized cost:						
Government securities	33,463	–	59,986,408	60,019,871	201,444	60,221,315
Private debt securities	697,319	5,620,280	3,967,772	10,285,371	29,266,025	39,551,396
Financial asset at amortized cost:						
Others ^{4/}	–	–	–	–	805,005	805,005
	December 31, 2017					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
	(In Millions)					
Due from BSP ^{1/}	P–	P–	P108,744	P108,744	P–	P108,744
Due from other banks	5,679	5,156	3,392	14,227	7,798	22,025
Interbank loans receivables	5,801	2,754	3,590	12,145	693	12,838
Securities held under agreements to resell	–	–	14,621	14,621	–	14,621
Financial assets at FVTPL:						
Held-for-trading:						
Government securities	–	–	1,822	1,822	386	2,208
Derivative assets ^{2/}	97	13	298	408	155	563
Private debt securities	–	–	–	–	31	31
Equity securities	–	–	43	43	31	74
Investment in UITFs	–	–	6	6	–	6
AFS investments:						
Government securities	2,240	–	33,736	35,976	5,645	41,621
Private debt securities	2,284	5,942	9,044	17,270	9,650	26,920
Quoted equity securities	–	–	140	140	1,005	1,145
Unquoted equity securities	–	–	1	1	146	147
HTM investments						
Government securities	125	–	23,959	24,084	2,721	26,805
Loans and receivables:						
Unquoted debt securities ^{3/}	–	–	149	149	10,785	10,934
Others ^{4/}	–	–	12,561	12,561	–	12,561

^{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/} Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

^{3/} Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

^{4/} 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, 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	P16,825	P–	P–	P–	P–	P16,825
Due from BSP and other banks	123,249	–	–	–	–	123,249
Interbank loans receivable	10,665	2,443	–	–	–	13,108
Securities held under agreements to resell	20,714	–	–	–	–	20,714
Financial assets at FVTPL:						
Government securities	8,458	–	–	–	–	8,458
Private debt securities	416	–	–	–	–	416
Equity securities	545	–	–	–	–	545
Investment in UITFs	6	–	–	–	–	6
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	988	554	3,726	1,193	28,390	34,851
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	3,900	88	4	3,703	18,739	26,434
Other assets	670	–	–	–	135	805
Total financial assets	P280,421	P89,125	P37,227	P32,827	P626,445	P1,066,045
Financial Liabilities						
Deposit liabilities:						
Demand	P153,065	P–	P–	P–	P–	P153,065
Savings	325,879	55,278	11,125	3,935	59,492	455,709
Time and LTNCDS	64,510	47,940	15,741	12,398	47,608	188,197
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	P574,741	P135,379	P35,197	P23,862	P136,794	P905,973



	December 31, 2017					Total
	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	
	(In Millions)					
Financial Assets						
COI	P12,391	P–	P–	P–	P–	P12,391
Due from BSP and other banks	130,769	–	–	–	–	130,769
Interbank loans receivable	12,287	228	173	150	–	12,838
Securities held under agreements to resell	14,621	–	–	–	–	14,621
Financial assets at FVTPL:						
Held-for-trading:						
Government securities	2,208	–	–	–	–	2,208
Equity securities	74	–	–	–	–	74
Private debt securities	31	–	–	–	–	31
Derivative assets:						
Gross contractual receivable	30,057	5,364	565	104	788	36,878
Gross contractual payable	(29,835)	(5,327)	(541)	(81)	(530)	(36,314)
	222	37	24	23	258	564
Designated at FVTPL:						
Investment in UITFs	6	–	–	–	–	6
AFS investments:						
Government securities	467	575	936	1,330	45,921	49,229
Private debt securities	124	122	342	2,260	29,676	32,524
Equity securities	–	–	–	–	1,291	1,291
HTM investments:						
Government securities	189	212	304	757	44,208	45,670
Loans and receivables:						
Receivables from customers	80,262	67,820	22,814	12,711	388,954	572,561
Unquoted debt securities	6,385	4,997	3,218	–	85	14,685
Other receivables	6,366	811	852	870	14,480	23,379
Other assets	887	–	–	–	47	934
Total financial assets	P267,289	P74,802	P28,663	P18,101	P524,920	P913,775
Financial Liabilities						
Deposit liabilities:						
Demand	P125,582	P–	P–	P–	P–	P125,582
Savings	291,611	31,169	12,960	18,754	15,869	370,363
Time	44,892	41,380	12,008	10,078	59,496	167,854
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	(17,063)	(2,950)	(44)	(104)	(598)	(20,759)
Gross contractual receivable	16,935	2,942	41	83	415	20,416
	(128)	(8)	(3)	(21)	(183)	(343)
Bills and acceptances payable	14,828	1,108	4,390	5,075	12,967	38,368
Subordinated debt						
Accrued interest payable and accrued other expenses payable	1,544	156	30	10	17	1,757
Other liabilities	19,622	180	75	183	1,502	21,562
Total financial liabilities	P497,951	P73,985	P29,460	P34,079	P89,668	P725,143

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.

c. 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.

d. 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 (In Millions)	Equities Price	Total VaR**
December 31, 2018	P5.27	P523.30	P4.59	P533.16
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
December 31, 2017	7.30	179.72	1.29	188.31
Average Daily	3.75	178.20	0.74	182.69
Highest	18.25	324.06	1.52	343.83
Lowest	0.63	58.00	0.26	58.89

* 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:

	2018					Total
	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	
	(In Millions)					
Financial Assets*						
Due from BSP and other banks	P17,189	P2,227	P359	P114	P103,360	P123,249
Interbank loans receivable and securities held under agreements to resell	27,252	4,293	—	403	—	31,948
Receivables from customers and other receivables - gross**	133,599	49,477	14,250	10,655	85,552	293,533
Total financial assets	P178,040	P55,997	P14,609	P11,172	P188,912	P448,730
Financial Liabilities*						
Deposit liabilities:						
Savings	P103,373	P51,010	P17,410	P9,855	P219,974	P401,622
Time***	54,243	29,115	12,695	7,290	43,867	147,210
Bonds payable	—	—	—	—	15,661	15,661
Bills and acceptances payable	26,010	29,626	9,334	438	4,675	70,083
Total financial liabilities	P183,626	P109,751	P39,439	P17,583	P284,177	P634,576
Repricing gap	(P5,586)	(P53,754)	(P24,830)	(P6,411)	(P95,265)	(P185,846)
Cumulative gap	(5,586)	(59,340)	(84,170)	(90,581)	(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.



	December 31, 2017					Total
	Up to 1Month	More than 1 to 3 Months	More than 3 to 6 Months	More than to 12 months	Beyond 1 year	
	(In Millions)					
Financial Assets*						
Due from BSP and other banks	P24,660	P2,121	P728	P186	P4,590	P32,285
Interbank loans receivable	19,962	7,327	170	-	-	27,459
Receivable from customers and other receivables - gross**	133,507	75,008	17,509	23,249	89,054	338,327
Total financial assets	P178,129	P84,456	P18,407	P23,435	P93,644	P398,071
Financial Liabilities*						
Deposit liabilities:						
Savings	P75,794	P22,624	P12,265	P17,355	P223,384	P351,422
Time***	59,937	25,560	10,091	10,243	23,721	129,552
Bills and acceptances payable	22,795	15,547	753	885	3,937	43,917
Total financial liabilities	P158,526	P63,731	P23,109	P28,483	P251,042	P524,891
Repricing gap	P19,603	P20,725	(P4,702)	(P5,048)	(P157,398)	(P126,820)
Cumulative gap	19,603	40,328	35,626	30,578	(126,820)	-

*Financial instruments that are not subject to repricing/rollforward were excluded.

**Receivable from customers excludes residual value of leased assets.

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:

	2018		2017	
	Income Before Income Tax	Equity	Income Before Income Tax	Equity
	(In Millions)			
+50bps	P321	P321	P196	P196
-50bps	(321)	(321)	(196)	(196)
+100bps	643	643	391	391
-100bps	(643)	(643)	(391)	(391)

As one of the long-term goals in the risk management process, the banking segment 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, 2018			December 31, 2017		
	USD	Others*	Total	USD	Others	Total
	(In Millions)					
Assets						
COCI and due from BSP	P138	P331	P469	P157	P519	P676
Due from other banks	8,777	9,814	18,591	9,554	7,082	16,636
Interbank loans receivable and securities held under agreements to resell	2,869	1,950	4,819	2,904	1,679	4,583
Loans and receivables	18,453	11,377	29,830	13,729	941	14,670
Financial Assets at FVTPL	447	1	448	-	-	-
AFS investments/Financial Assets at FVTOCI	4,180	1,326	5,506	14,380	1,593	15,973
Financial assets at amortized cost/HTM investments	10,207	775	10,982	7	-	7
Other assets	3,539	1,238	4,777	62	210	272
Total assets	P48,610	P26,812	P75,422	P40,793	P12,024	P52,817
Liabilities						
Deposit liabilities	P9,288	P9,261	P18,549	P9,304	P4,154	P13,458
Bills and acceptances payable	8,549	26,778	35,327	12,465	7,667	20,132
Accrued taxes, interest and other expenses	76	107	183	56	37	93
Other liabilities	1,392	1,138	2,530	10,659	436	11,095
Total liabilities	19,305	37,284	56,589	32,484	12,294	44,778
Net Exposure	P29,305	(P10,472)	P18,833	P8,309	(P270)	P8,039

* 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, 2018:

	Cash in banks	Due from related parties	Trade and other receivables					Total
			Current	Days past due				
				< 30 days	30-60 days	61-90 days	> 90 days	
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	P28,863.5	P2,028.6	P15,030.3	P2,228.3	P1,471.3	P1,532.7	P4,330.9	P24,593.5
Expected credit loss	P-	P-	P1.5	P1.6	P1.9	P3.3	P456.2	P464.5

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts of the Group except for the banking segment as of December 31, 2017:

	Neither past due nor impaired		Past due but not impaired				Impaired Financial Assets	Total
	Standard Grade	Sub-standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days		
(In Millions)								
Loans and receivables:								
Cash, cash equivalents and other cash items	P3,405	P=	P-	P=	P-	P-	P-	P3,405
Trade receivables	2,888	-	2,494	1,520	1,835	4,497	33	13,267
Other receivables	2,083	-	41	7	76	435	90	2,732
Due from related parties	2,028	-	-	-	-	-	-	2,028
Refundable deposits	25	-	2	159	-	-	-	186
Financial assets at FVTPL	3,564	-	-	-	-	-	-	3,564
AFS investments	3,373	-	-	-	-	-	-	3,373
	P17,366	P=	P2,537	P1,686	P1,911	P4,932	P123	P28,555

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):

	2018			2017		
	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	P4,473	P-	P4,473	P3,405	P-	P3,405
Trade receivables	14,311	-	14,311	13,267	-	13,267
Other receivables	6,387	-	6,387	2,732	-	2,732
Due from related parties	2,028	-	2,028	2,028	-	2,028
Refundable deposits	179	-	179	186	-	186
Financial assets at FVTPL	784	-	784	3,564	-	3,564
AFS investments	-	-	-	-	3,373	3,373
	P28,162	P-	P28,162	P25,182	P3,373	P28,555
Short term debts	P2,050	P-	P2,050	P1,550	P-	P1,550
Accounts payable and other liabilities	7,668	-	7,668	8,071	-	8,071
Long-term debts	91	2,803	2,894	115	1,475	1,590
Due to related parties	336	-	336	-	-	-
Other liabilities	161	2,239	2,400	196	2,220	2,416
	P10,306	P5,042	P15,348	P9,932	P3,695	P13,627

*Excluding non-financial liabilities amounting to P221.0 million and P181.43 million as of December 31, 2018 and 2017, 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 2018, 2017 and 2016, 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 P310.4 million, P327.4 million and P44.2 million, respectively, if equity prices will increase by 19.4%, 10.3% and 8.9%, 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, 2018 and 2017, 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, 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 balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative assets (Notes 6 and 21)	P46,075,448	(P45,569,485)	P505,963	(P58,838)	P-	P447,125
Securities sold under agreements to repurchase (Note 8)	20,700,000	-	20,700,000	-	(19,947,247)	752,753
	P66,775,448	(P45,569,485)	P21,205,963	(P58,838)	(P19,947,247)	P1,199,878
December 31, 2017						
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 balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative assets (Notes 6 and 21)	P37,138,999	(P36,646,558)	P492,441	(P44,921)	P-	P492,441
Securities sold under agreements to repurchase (Note 8)	14,621,483	-	14,621,483	(148,225)	(14,473,258)	148,225
	P51,760,482	(P36,646,558)	P15,113,924	(P193,146)	(P14,473,258)	P640,666

Financial liabilities

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 balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative liabilities (Notes 16 and 21)	P32,870,042	(P33,325,851)	(P455,809)	(P92,025)	P-	(P355,459)
Securities sold under agreements to repurchase (Note 8)*	48,035,239	-	48,035,239	-	(56,368,809)	(4,477,639)
Total	P80,905,281	(P33,325,851)	P47,579,430	(P92,025)	(P56,368,809)	(P4,833,098)

* Included in bills and acceptances payable in the consolidated balance sheet.

December 31, 2017

December 31, 2017						
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 balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
				[a]	[b]	
(In Thousands)						
Derivative liabilities (Notes 16 and 21)	P19,126,140	(P19,390,528)	(P264,388)	P91,071	P-	(P249,459)
Securities sold under agreements to repurchase (Note 17)*	35,350,259	-	35,350,259	-	(39,827,898)	-
Total	P54,476,399	(P19,390,528)	P35,085,871	P91,071	(P39,827,898)	(P249,459)

* Included in bills and acceptances payable in the consolidated balance sheet.

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.

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.

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 balance sheets after initial recognition. Recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated balance sheets 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 balance sheet 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.

As of December 31, 2018 and 2017, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(In Thousands)</i>				
Financial Assets:				
Financial assets at amortized cost/				
HTM investments	P99,772,711	P96,187,595	P26,732,182	P27,924,081
Loans and receivables:				
Receivables from customers	561,351,072	561,366,817	472,471,979	481,012,205
Unquoted debt securities	-	-	10,934,147	10,942,367
	P661,123,783	P657,554,412	P510,138,308	P519,878,653
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	P147,210,729	P144,481,264	P160,915,991	P179,058,554
Bills payables	68,316,974	68,305,178	41,684,801	41,765,052
Long term debts:				
Subordinated debt	3,497,797	3,551,484	-	-
Unsecured term loan	2,893,952	2,631,179	6,080,146	5,443,815
Bonds payable	15,661,372	16,019,776	-	-
LTNCD	31,403,225	28,517,657	-	-
Other liabilities:				
Payable to landowners	911,826	904,506	1,937,568	1,934,286
Tenants' rental deposits	506,007	491,929	452,372	414,362
	P270,401,882	P264,902,973	P211,070,878	P228,616,069

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.

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:

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 3.00% to 4.25% and 3.00% to 4.13% as of December 31, 2018 and 2017, 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.

	December 31, 2018			
	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	P7,127,592	P1,330,121	P–	P8,457,713
Derivative assets	–	516,774	57,854	574,628
Private debt securities	–	415,583	–	415,583
Equity securities	545,148	–	–	545,148
Designated at FVTPL:				
Investment in UITFs	–	789,949	–	789,949
	P7,672,740	P3,052,427	P57,854	P10,783,021
AFS investments:				
Government securities	P19,415,700	P14,149,977	P–	P33,565,677
Private debt securities	5,581,723	12,090,286	–	17,672,009
Equity securities**	5,443,467	554,591	115,724	6,113,782
	P30,440,890	P26,794,854	P115,724	P57,351,468
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P38,952,215	P38,952,215
Plant buildings and building improvements	–	–	14,108,050	14,108,050
Machineries and equipment	–	–	7,257,496	7,257,496
	P–	P–	P60,317,761	P60,317,761
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P–	P470,648	P–	P470,648
	P–	P470,648	P–	P470,648
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	P87,006,196	P8,980,697	P200,702	P96,187,595
Loans and receivables:				
Receivables from customers	–	–	561,366,817	561,366,817
	P87,006,196	P8,980,697	P561,567,519	P657,554,412
Non-financial Assets				
Investment properties***				
Land	P–	P–	P22,583,028	P22,583,028
Buildings and improvements	–	–	2,662,848	2,662,848
	P–	P–	P25,245,876	P25,245,876
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P144,481,264	P144,481,264
Long term debts:				
Bills payable	–	–	68,305,178	68,305,178
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	–	–	904,506	904,506
Tenants' rental deposits	–	–	491,929	491,929
	P–	P–	P261,351,489	P261,351,489

* 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, 2017			
	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	P1,534,791	P673,162	P–	P2,207,953
Derivative assets	–	508,045	54,938	562,983
Private debt securities	–	31,305	–	31,305
Equity securities	151,628	–	–	151,628
Designated at FVTPL:				
Investment in UITFs	–	6,303	–	6,303
	P1,686,419	P1,218,815	P54,938	P2,960,172
AFS investments:				
Government securities	P37,083,207	P4,583,318	P–	P41,666,525
Private debt securities	21,018,127	5,928,190	–	26,946,317
Equity securities**	–	1,077,221	147,353	1,224,574
	P58,101,334	P11,588,729	P147,353	P69,837,416
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P15,783,538	P15,783,538
Plant buildings and building improvements	–	–	13,135,848	13,135,848
Machineries and equipment	–	–	7,295,561	7,295,561
	P–	P–	P36,214,947	P36,214,947
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P–	P343,522	P–	P343,522
	P–	P343,522	P–	P343,522
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	P23,735,468	P4,188,612	P–	P27,924,080
Loans and receivables:				
Receivables from customers			481,012,205	481,012,205
Unquoted debt securities			10,942,367	10,942,367
	P23,735,468	P4,188,612	P491,954,572	P519,878,652
Non-financial Assets				
Investment properties***				
Land	P–	P–	P37,007,466	P37,007,466
Buildings and improvements	–	–	16,935,051	16,935,051
	P–	P–	P53,942,517	P53,942,517
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P179,058,533	P179,058,533
Long term debts:				
Bills payable	–	–	41,765,052	41,765,052
Unsecured term loan	–	–	5,443,815	5,443,815
Other liabilities:				
Payable to landowners	–	–	1,934,286	1,934,286
Tenants' rental deposits	–	–	414,362	414,362
	P–	P–	P228,616,048	P228,616,048

* 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, 2018 and 2017, 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	P6,000 - P6,200
Plant buildings and building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost	P4,287 - P10,000
Building	Replaceable Fixed Asset Valuation Approach	Estimated total floor area	24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost	P2.8 million - P26.5 million
		Estimated number of components	315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost	P3,200 - P8.6 million
		Estimated number of components	465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	P800 - P100,000
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:

Valuation Techniques	Description
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.
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

- As of December 31, 2018 and 2017, unpaid additions to property, plant and equipment amounted to P180.4 million and P163.0 million, respectively, which is included as part of "Accounts payable and accrued expenses".
- In 2018, 2017 and 2016, the Group reclassified cost of land, which was previously recognized as real estate inventory, amounting to P282.9 million, P536.7 million and P2.5 billion, respectively, to investment property.
- In 2018, the Group reclassified costs of condominium units amounting to P16.4 million to property and equipment. In 2017, the Group reclassified costs of condominium units and furniture, fixtures and equipment totaling to P973.7 million to property and equipment.
- In 2016, the Group reclassified certain properties from property, plant and equipment with aggregate carrying amount of P4.7 billion to investment properties.
- Construction costs of building intended for leasing amounting to P105.5 million under real estate inventory, which were still under construction as of December 31, 2015, were transferred to investment properties.

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 2018 and 2017.

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 changewere made in the objectives, policies or processes in 2018 and 2017.

The Group considers its total equity reflected in the consolidated balance sheets 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 balance sheets.

The table below shows the leverage ratios of the Group:

	2018	2017
	<i>(In Thousands, except ratios)</i>	
Total liabilities	P866,586,420	P721,780,274
Total equity	231,190,388	195,315,415
Total liabilities and equity	P1,097,776,808	P917,095,689
Debt ratio	0.79:1	0.79:1
Debt-to-equity ratio	3.75:1	3.70:1

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. Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operations

Sale of PNB's 51% share in APLII to Allianz SE

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 more than 660 branches nationwide of PNB.

As of December 31, 2015, APLII was classified as disposal group held for sale and as discontinued operation.

The sale of APLII was completed on June 6, 2016 for a total consideration of US\$66.0 million (P3.1 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 (P3.1 billion), was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US\$44.9 million (P2.1 billion) and US\$21.1 million (P1.0 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.

PNB recognized gain on sale of the 51% interest in APLII amounting to P400.3 million, net of taxes and transaction costs amounting to P276.7 million and P153.3 million, respectively. The consideration amounting to P939.7 million allocated to the EDR was recognized as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20).

Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to P292.4 million between June 2, 2016 and June 5, 2016.

PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of APLII, together with the results of operations, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities of APLII to "Assets of disposal group classified as held for sale" and "Liabilities of disposal group classified as held for sale", respectively, in the 2015 consolidated balance sheet.

The business of APLII represented the entirety of PNB's life insurance business until December 21, 2015. APLII was previously presented in the "Others" section of the business segment disclosure. With APLII being classified as a discontinued operation in 2015, the comparative consolidated statement of income and comprehensive income in 2014 have been re-presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. PNB recognized gain on sale amounting to P834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statements of income.

The results of operation of APLII are presented below:

	Years Ended December 31	
	2016	2015
	(In Thousands)	
Interest income		
Loans and receivables	P7,610	P20,343
Trading and investment securities	195,605	443,116
Deposits with banks and others	5,151	3,504
	208,366	466,963
Net service fees and commission expense	(67,591)	(281,639)
Net insurance premiums	508,770	1,716,308
Net insurance benefits and claims	(441,090)	(1,290,439)
Net insurance premiums	67,680	425,869
Other income (charges)		
Trading and investment securities gains - net	1,800	20,874
Foreign exchange gains (losses) - net	(876)	11,806
Miscellaneous	80,667	149,061
Total operating income	290,046	792,934
General and administrative expenses		
Compensation and fringe benefits	71,741	223,322
Taxes and licenses	16,759	39,570
Occupancy and equipment-related costs	7,610	9,764
Depreciation and amortization	4,707	10,704
Provision for impairment, credit and other losses	4,704	32,765
Miscellaneous	39,692	74,573
Total general and administrative expenses	145,213	390,698
Result from operating activities	144,833	402,236
Provision for income tax	(21,049)	(44,305)
Result from operating activities, net of tax	123,784	357,931
Gain on sale of discontinued operation	834,535	—
Transaction cost	(153,307)	—
Provision for income tax	(185,449)	—
Net income from discontinued operations	P619,563	P357,931
Attributable to:		
Equity holders of the Company	P279,894	P161,699
Non-controlling interests	339,669	196,232
	P619,563	P357,931

Earnings per share attributable to equity holders of the Company from discontinued operations are computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the banking segment	P279,894	P161,699	P119,339
Weighted average number of common shares for basic earnings per share	10,821,389	10,821,389	10,821,389
Basic earnings per share	P0.03	P0.02	P0.01

The net cash flows directly associated with the disposal group follow:

	2016	2015
	(In Thousands)	
Net cash provided by operating activities	P171,535	P1,210,588
Net cash used in investing activities	(267,458)	(903,161)

The major classes of assets and liabilities of APLII classified as disposal group held for sale as of December 31, 2015 are as follows (in thousands):

Assets	
Cash and other cash items	P642,544
Financial assets at fair value through profit or loss Segregated fund assets	13,634,687
AFS investments	7,468,653
HTM investments	1,269,398
Other receivables	437,210
Property and equipment - net	29,546
Other assets	44,719
Assets of disposal group classified as held for sale	P23,526,757
Liabilities	
Financial liabilities at fair value through profit or loss Segregated fund liabilities	P13,725,321
(Forward)	

Accrued taxes, interest and other expenses	P161,817
Insurance contract liabilities	6,837,144
Other liabilities	728,339
Liabilities of disposal group classified as held for sale	P21,452,621
Reserves	
Net unrealized gain on AFS investments	P617,649
Remeasurement losses on retirement plan	(24,412)
Reserves of disposal group classified as held for sale	P593,237
Attributable to:	
Equity holders of the Company	P335,000
Non-controlling interests	258,237
	P593,237

Transactions with Heineken

On May 27, 2016, the Group entered into a joint venture agreement with Heineken to establish AB HPI to manage its beer segment. In accordance with the agreement, ABI transferred its beer business comprising of the related inventories, returnable containers and brands to AB HPI in exchange for shares of stock at the fair value of P787.4 million. The Group has significant influence over AB HPI and therefore, treats the investment as investment in associate.

The Group recognized the difference amounting to P1,056.2 million between its investment and its equity interest in AB HPI as gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stock. Also, the Group recognized P46.3 million as gain from the sale of its brands (see Note 6). These amounts are presented as part of discontinued operations in 2016.

The results generated from discontinued operations of the beer segment of the Group follow (in thousands):

	Years Ended December 31	
	2016	2015
NET SALES	P3,136,595	P2,900,686
COST OF GOODS SOLD		
Taxes and licenses	1,306,050	1,352,173
Materials used and changes in inventories	816,349	458,775
Depreciation and amortization	249,654	289,436
Utilities	77,478	83,417
Outside services	63,056	135,265
Fuel and oil	90,191	107,400
Repairs and maintenance	79,347	102,491
Salaries, wages and other employee benefits:		
Salaries and wages	108,093	125,696
Retirement benefits costs	32,080	32,458
Professional fees	49,181	59,875
Supplies	86,625	72,416
Others	81,446	58,088
	3,039,550	2,877,490
GROSS PROFIT	97,045	23,196
SELLING EXPENSES		
Advertising and promotions	305,174	167,369
Depreciation and amortization (Note 12)	141,031	160,431
Personnel costs	36,175	37,343
Materials and consumables	7,371	39,486
Repairs and maintenance	2,516	2,946
Travel and transportation	8,639	8,385
Others	30,754	25,695
	531,660	441,655
GENERAL AND ADMINISTRATIVE EXPENSES		
Taxes and licenses	40,442	31,792
Management, consulting and professional fees	34,595	26,097
Personnel costs	26,918	22,405
Travel and transportation	3,779	4,781
Communication, light and water	3,042	1,751
Repairs and maintenance	865	940
Occupancy	490	—
Materials and consumables	284	73
Insurance	53	36
Others	1,584	794
	112,052	88,669
OPERATING LOSS	(546,667)	(507,128)
OTHER INCOME		
Gain on investment in an associate arising from contribution of non-monetary assets	1,056,240	—
(Forward)		

	Years Ended December 31	
	2016	2015
Gain on sale of brands	P46,300	P-
Others	3,463	7,135
INCOME (LOSS) FROM DISCONTINUED OPERATIONS		
BEFORE INCOME TAX	559,336	(499,993)
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	(132,184)	(131,000)
Deferred	(16,887)	(18,998)
	(149,071)	(149,998)
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	P708,407	(P349,995)

The net cash flows directly associated from discontinued operations follow:

	2016	2015
	(In Thousands)	
Net cash provided by operating activities	(P401,289,143)	P185,264,589
Net cash used in investing activities	(230,836,659)	(807,443,468)
	(P632,125,802)	(P622,178,879)

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 balance sheet. 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.

The results of operation of PNB Gen are presented below (in thousands):

	2018	2017	2016
Interest income			
Loans and receivables	P355	P370	P451
Investment securities	60,477	46,698	29,391
Deposits with banks and others	1,994	5,617	5,412
	62,826	52,685	32,254
Net service fees and commission income (expense)	7,590	(102,216)	(79,664)
Net insurance premium	1,228,794	656,329	624,927
Net insurance benefits and claims	1,292,949	322,244	295,015
Net insurance premium	(64,155)	334,085	329,912
Other income			
Trading and investment securities gains/(loss)	(4,176)	-	13,966
Foreign exchange gains/(loss) - net	15,921	(2,557)	1,516
Miscellaneous	-	-	3,403
Total operating income	18,006	281,997	304,837
Operating expenses			
Compensation and fringe benefits	130,241	149,084	170,040
Occupancy and equipment-related costs	18,695	18,699	16,185
Provision for reversal of credit losses	12,635	(19,463)	(80)
Depreciation and amortization	P6,169	P6,169	P5,076
Taxes and licenses	931	3,051	770
Miscellaneous	45,946	46,811	38,930
Total operating expenses	214,617	204,346	230,921
Income (loss) from discontinued operations before income tax	(P196,611)	P77,651	P73,466
Provision for income tax	23,361	7,278	7,699
Net income (loss) from discontinued operations	(P219,972)	P70,373	P65,767

Net Insurance Premium

This account consists of (in thousands):

	2018	2017	2016
Gross earned premiums	P2,501,725	P2,291,986	P2,348,900
Reinsurers' share of gross earned premiums	(1,272,931)	(1,635,657)	(1,723,973)
	P1,228,794	P656,329	P624,927

Net Insurance Benefits and Claims

This account consists of (in thousands):

	2018	2017	2016
Gross insurance contract benefits and claims paid	P1,711,759	P429,772	P780,537
Reinsurers' share of gross insurance contract benefits and claims paid	(606,275)	(86,845)	(140,357)
Gross change in insurance contract liabilities	109,703	147,880	(201,403)
Reinsurers' share of change in insurance contract liabilities	77,762	(168,563)	(143,762)
	P1,292,949	P322,244	P295,015

The major classes of assets and liabilities of PNB Gen classified as disposal group as of December 31, 2018 follows (in thousands):

Assets	
Due from other banks	P477,761
Financial assets at FVTPL	1,329
Financial assets at FVTOCI	455,654
Investment securities at amortized cost	1,033,150
Loans and other receivables - net	4,970,998
Deferred reinsurance premium	985,966
Property and equipment - net	14,495
Deferred tax assets	26,180
Intangible assets - net	8,205
Other assets	264,885
Liabilities	P8,238,623
Accrued taxes, interest and other expenses	P229,263
Insurance contract liabilities	5,420,609
Reserved for unearned reinsurance premium	1,438,001
Accounts payable	136,987
Other liabilities	12,951
	P7,237,811
Net assets of disposal group held for sale	P984,715
Amounts included in accumulated OCI:	
Net unrealized loss on financial assets at FVTOCI	(P15,601)
Remeasurement losses on retirement plan	(6,292)
	(P21,893)

Net cash flow used in discontinued operations follow:

	2018
The net cash flows directly associated with the disposal group:	
Operating	(P232,229)
Investing	212,896
	(P19,333)

38. Commitments, Provision and Contingencies and Other Matters

Commitments

Operating lease commitments - the 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 P506.0 million and P104.6 million as of December 31, 2018 and P452.4 million and P51.8 million as of December 31, 2017, respectively.



Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2018	2017
	(In Thousands)	
Within one year	P1,617,061	P1,185,458
After one year but not more than five years	2,829,157	1,817,706
More than five years	548,242	145,505
	P4,994,460	P3,148,669

Operating lease commitments - the Group as lessee

The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	2018	2017
	(In Thousands)	
Within one year	P830,195	P761,675
Within two to five years	1,727,394	1,729,169
More than five years	1,821,833	1,758,887
	P4,379,422	P4,249,731

Future minimum lease receivables under finance leases are as follows:

	2018	2017
	(In Thousands)	
Within one year	P1,400,361	P1,557,543
Beyond one year but not more than five years	1,501,944	1,308,300
More than five years	26,034	25,200
Total	2,928,339	2,891,043
Less amounts representing finance charges	13,770	62,612
Present value of minimum lease payments	P2,914,569	P2,828,431

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 P87.7 billion and P88.0 billion as of December 31, 2018 and 2017, respectively. In connection with the trust functions of PNB, government securities amounting to P1.0 billion and P941.5 million (included under 'AFS Investments') as of December 31, 2018 and 2017, 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 P23.0 million, P23.9 million and P19.4 million in 2018, 2017 and 2016, 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.

Movements of provision for legal claims included in "Other liabilities" in the consolidated balance sheets for the Group are as follows (see Note 20):

	2018	2017
	(In Thousands)	
Balance at beginning of year	P969,107	P1,300,290
Provisions (reversals) during the year (Note 26)	(253,331)	(331,183)
Balance at end of year	P715,776	P969,107

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 P725.8 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 P45.9 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 P797.4 million from "Other current assets" to "Other noncurrent assets".

Other Matter

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.

BOARD OF DIRECTORS



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Chairman & Chief Executive Officer

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Chief Financial Officer



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Corporate Secretary



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