

# COVER SHEET

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3
---	---	---	---	---	---	---	---	---	---	---

Company Name

L	T		G	R	O	U	P	,		I	N	C	.		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S

Principal Office (No./Street/Barangay/City/Town/Province)

1	1	t	h		F	l	o	o	r	,		U	n	i	t		3		B	e	n	c	h						
T	o	w	e	r	,		3	0	t	h		S	t	.		C	o	r	n	e	r		R	i	z	a	l		
D	r	i	v	e		C	r	e	s	c	e	n	t		P	a	r	k		W	e	s	t		5				
B	o	n	i	f	a	c	i	o		G	l	o	b	a	l		C	i	t	y	,								
T	a	g	u	i	g		C	i	t	y																			

Form Type

1	7	Q	
---	---	---	--

Department requiring the report

S	E	C	
---	---	---	--

Secondary License Type, If Applicable

N	/	A	
---	---	---	--

## COMPANY INFORMATION

Company's Email Address

info@ltg.com.ph

Company's Telephone Number/s

8808-1266

Mobile Number

N/A

No. of Stockholders

373

Annual Meeting  
Month/Day

June/30

Fiscal Year  
Month/Day

December/31

## CONTACT PERSON INFORMATION

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

Name of Contact Person

Jose Gabriel D. Olives

Email Address

josegabriel.olives@ltg.com.ph

Telephone Number/s

808-1266

Mobile Number

N/A

Contact Person's Address

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

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

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SRC AND  
SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the quarterly period ended March 31, 2020
2. SEC Identification Number PW-343
3. BIR Tax Identification No. 121-145-650-000
4. Exact name of registrant as specified in its charter LT GROUP, INC.
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code: (SEC Use Only)
7. Address of registrant's principal office Postal Code  
11<sup>th</sup> Floor Unit 3 Bench Tower, 30<sup>th</sup> St. Corner Rizal drive  
Crescent Park West 5 Bonifacio Global City Taguig City 1634
8. Registrant's telephone number, including area code (632) 808-1266
9. Former name, former address, and former fiscal year, if changed since last report.  
N/A

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

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common shares, ₱1.00 par value	10,821,388,889

11. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes [☒] No [☐]

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed pursuant to Section 17 of the Securities Regulation Code (SRC) and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes [☒] No [☐]

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

Yes [☒] No [☐]

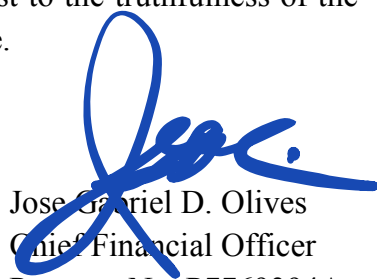


LT GROUP, INC.

## CERTIFICATION

I, Jose Gabriel D. Olives, Chief Financial Officer, a duly authorized representative of **LT Group, Inc.** (Company) with SEC registration number PW-343 with principal office at 11<sup>th</sup> floor Unit 3 Bench Tower, 30<sup>th</sup> St. corner Rizal Drive Crescent Park West 5 Bonifacio Global City Taguig City, do hereby certify and state that:

- 1) In compliance with the guidelines issued by the Securities and Exchange Commission (SEC) for the filing of structured and current reports by publicly listed companies with the SEC in light of the imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over the entire region of Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019), the Company is timely filing its SEC Form 17-Q by uploading the same through the PSE EDGE in accordance with the relevant PSE rules and procedures.
- 2) The information contained in SEC Form 17Q dated May 15, 2020 is true and correct to the best of my knowledge.
- 3) On behalf of the Company, I hereby undertake to a) submit hard or physical copies of SEC Form 17Q dated May 15, 2020 with proper notarization and certification, b) pay the filing fees (where applicable) c) pay the penalties due (where applicable) d) other impositions (where applicable), within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours.
- 4) I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission.
- 5) I am executing this certification this May 15, 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.



Jose Gabriel D. Olives  
Chief Financial Officer  
Passport No. P7769394A

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited interim condensed financial statements of LT Group, Inc. (the Company) and its subsidiaries as of and for the period March 31, 2020 (with comparative figures as of December 31, 2019 and for the period March 31, 2019) are filed as part of this form 17-Q as Annex "A".

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required by Part IV, Paragraph a (2) (B) of SRC 12 is attached hereto as Annex "B"

## PART II – OTHER INFORMATION

Not Applicable – There are no disclosures not made under SEC form 17-C

### SIGNATURES

Pursuant to the requirements of the Securities and Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer/Registrant : **LT GROUP, INC.**

Signature and Title :   
**JOSE GABRIEL D. OLIVES**  
Chief Financial Officer

Signature and Title :   
**NESTOR C. MENDONES**  
Deputy Chief Financial Officer

Date : May 15, 2020

# **Annex “A”**

## **LT GROUP, INC. AND SUBSIDIARIES**

Interim Condensed Consolidated Financial Statements  
As at March 31, 2020 and December 31, 2019  
And for the Three Months Ended March 31, 2020 and 2019

---

## LT Group, Inc. and Subsidiaries

Interim Consolidated Financial Statements

As at March 31, 2020 and December 31, 2019

and for the three months ended March 31, 2020 and 2019

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

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	<b>₱201,215,831</b>	₱184,913,132
Financial assets at fair value through profit or loss (Notes 5 and 19)	<b>24,257,415</b>	13,469,380
Financial assets at fair value through other comprehensive income (FVTOCI) (Note 6)	<b>13,591,822</b>	16,968,590
Financial assets at amortized cost	<b>34,805,534</b>	25,252,670
Loans and receivables (Note 7)	<b>271,146,814</b>	260,926,594
Inventories (Note 8)	<b>12,935,181</b>	12,196,871
Due from related parties (Note 20)	<b>2,055,258</b>	2,029,436
Other current assets (Note 9)	<b>12,900,306</b>	11,379,265
<b>Total Current Assets</b>	<b>572,908,161</b>	527,135,938
<b>Noncurrent Assets</b>		
Loans and receivables - net of current portion (Note 7)	<b>394,806,750</b>	411,253,754
Financial assets at FVTOCI (Note 6)	<b>40,272,511</b>	110,549,031
Financial assets at amortized cost	<b>64,460,278</b>	75,212,087
Investment in associates and joint ventures (Note 10)	<b>27,670,130</b>	27,254,278
Property, plant and equipment (Note 11):		
At appraised values	<b>59,968,544</b>	59,811,911
At cost	<b>11,843,979</b>	12,087,216
Investment properties (Note 11)	<b>32,699,400</b>	32,631,441
Deferred income tax assets (Note 27)	<b>2,962,925</b>	2,386,671
Other noncurrent assets (Note 12)	<b>7,584,901</b>	7,508,226
<b>Total Noncurrent Assets</b>	<b>642,269,418</b>	738,694,615
<b>TOTAL ASSETS</b>	<b>₱1,215,177,579</b>	₱1,265,830,553

**LIABILITIES AND EQUITY****Current Liabilities**

Deposit liabilities (Note 13)	<b>₱741,270,455</b>	₱772,143,072
Financial liabilities at fair value through profit or loss (Notes 14 and 19)	<b>352,957</b>	245,619
Bills and acceptances payable (Note 15)	<b>30,423,222</b>	51,821,601
Accounts payable and accrued expenses (Note 16)	<b>26,678,173</b>	26,700,462
Income tax payable	<b>1,168,358</b>	690,518
Short-term debts (Note 17)	<b>2,790,000</b>	5,150,000
Current portion of long-term debts (Note 17)	<b>873,347</b>	1,002,593
Due to related parties (Note 20)	<b>65,325</b>	65,325
Other current liabilities (Note 18)	<b>14,246,975</b>	18,842,433
<b>Total Current Liabilities (Carried Forward)</b>	<b>817,868,812</b>	876,661,623

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
<b>Total Current Liabilities (Brought Forward)</b>	<b>P817,868,812</b>	<b>P876,661,623</b>
<b>Noncurrent Liabilities</b>		
Deposit liabilities - net of current portion (Note 13)	45,682,589	46,095,883
Bills and acceptances payable (Note 15)	14,985,683	4,141,689
Long-term debts - net of current portion (Note 17)	70,234,785	71,566,863
Net retirement benefits liabilities (Note 21)	1,738,091	1,699,743
Deferred income tax liabilities (Note 27)	8,531,968	8,510,128
Other noncurrent liabilities (Note 18)	6,146,866	3,147,053
<b>Total Noncurrent Liabilities</b>	<b>147,319,982</b>	<b>135,161,359</b>
<b>Total Liabilities</b>	<b>965,188,794</b>	<b>1,011,822,982</b>
<b>Equity</b>		
Attributable to equity holders of the Company (Notes 1 and 28):		
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	3,838,837	8,538,837
Other equity reserves	1,024,653	1,024,653
Other comprehensive income, net of deferred income tax effect	11,042,953	18,038,315
Retained earnings	119,062,780	112,604,635
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	181,684,324	186,921,541
Non-controlling interests (Notes 1 and 28)	68,304,461	67,086,030
<b>Total Equity</b>	<b>249,988,785</b>	<b>254,007,571</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P1,215,177,579</b>	<b>P1,265,830,553</b>

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.



**LT GROUP, INC. AND SUBSIDIARIES****INTERIM CONSOLIDATED STATEMENTS OF INCOME****(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)**

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>REVENUE</b> (Note 22)		
Banking	<b>₱15,854,932</b>	₱12,938,872
Beverage	<b>3,724,116</b>	3,601,469
Distilled spirits	<b>5,031,452</b>	4,725,202
Property development	<b>611,058</b>	645,800
	<b>25,221,558</b>	21,911,343
<b>COST OF SALES AND SERVICES</b> (Note 22)	<b>11,042,657</b>	10,778,347
<b>GROSS INCOME</b>	<b>14,178,901</b>	11,132,996
<b>EQUITY IN NET EARNINGS OF ASSOCIATES</b> (Note 10)	<b>4,851,122</b>	2,516,522
	<b>19,030,023</b>	13,649,518
<b>OPERATING EXPENSES</b>		
Selling expenses (Note 23)	<b>583,480</b>	695,939
General and administrative expenses (Note 24)	<b>11,745,716</b>	7,815,917
	<b>12,329,196</b>	8,511,856
<b>OPERATING INCOME</b>	<b>6,700,827</b>	5,137,662
<b>OTHER INCOME (CHARGES)</b>		
Finance costs (Note 25)	<b>(100,630)</b>	(63,328)
Finance income (Note 25)	<b>3,956</b>	36,221
Foreign exchange gains - net	<b>153,742</b>	176,174
Others - net (Note 26)	<b>736,901</b>	904,856
	<b>793,969</b>	1,053,923
<b>INCOME BEFORE INCOME TAX</b>	<b>7,494,796</b>	6,191,585
<b>PROVISION FOR INCOME TAX</b> (Note 27)		
Current	<b>1,308,692</b>	924,409
Deferred	<b>(656,345)</b>	(36,860)
	<b>652,347</b>	887,549
<b>NET INCOME</b>	<b>₱6,842,449</b>	₱5,304,036
<b>NET INCOME ATTRIBUTABLE TO:</b>		
Equity holders of the Company	<b>₱6,212,562</b>	₱4,421,714
Non-controlling interests	<b>629,887</b>	882,322
	<b>₱6,842,449</b>	₱5,304,036
<b>Basic/Diluted Earnings Per Share</b> (Note 29)	<b>₱0.57</b>	₱0.41

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

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

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>NET INCOME</b>	<b>P6,842,449</b>	<b>P5,304,036</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>		
Accumulated translation adjustment	<b>(40,356)</b>	96,733
Net changes in fair value of AFS financial assets, net of deferred income tax effect	<b>(5,952,666)</b>	3,281,987
	<b>(5,993,022)</b>	3,378,720
<i>Other comprehensive (loss) not to be reclassified to profit or loss in subsequent periods:</i>		
Re-measurement gains on defined benefit plans, net of deferred income tax effect	<b>(168,213)</b>	(107,926)
	<b>(168,213)</b>	(107,926)
<b>OTHER COMPREHENSIVE INCOME,</b>		
<b>Net of income tax effect</b>	<b>(6,161,235)</b>	3,270,794
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P681,214</b>	<b>P8,574,830</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>		
Equity holders of the Company	<b>(P537,217)</b>	P6,683,457
Non-controlling interests	<b>1,218,431</b>	1,891,373
	<b>P681,214</b>	<b>P8,574,830</b>

*See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.*

# LT GROUP, INC. AND SUBSIDIARIES

## INTERIMCONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(Amounts in Thousands)

	Attributable to Equity Holders of the Company (Notes 1 and 28)											Non-controlling Interests (Notes 1 and 28)	Total
	Capital Stock	Capital in Excess of Par	Deposit for Future Stock Subscription	Preferred shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of the Company Held by Subsidiaries	Total			
<b>BALANCES AT DECEMBER 31, 2018</b>	<b>P10,821,389</b>	<b>P35,906,231</b>	<b>P–</b>	<b>P18,060,000</b>	<b>P804,095</b>	<b>P–</b>	<b>P15,388,591</b>	<b>P91,998,914</b>	<b>(P12,519)</b>	<b>P172,966,701</b>	<b>P58,223,688</b>	<b>P231,190,389</b>	
Net income for the period	–	–	–	–	–	–	–	4,421,714	–	4,421,714	882,322	5,304,036	
Other comprehensive income	–	–	–	–	–	–	2,261,743	–	–	2,261,743	1,009,051	3,270,794	
Total comprehensive income for the period	–	–	–	–	–	–	2,261,743	4,421,714	–	6,683,457	1,891,373	8,574,830	
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	(176,441)	176,441	–	–	–	–	
<b>BALANCES AT MARCH 31, 2019</b>	<b>P10,821,389</b>	<b>P35,906,231</b>	<b>P–</b>	<b>P18,060,000</b>	<b>P804,095</b>	<b>P–</b>	<b>P17,473,893</b>	<b>P96,597,069</b>	<b>(P12,519)</b>	<b>P179,650,158</b>	<b>P60,115,061</b>	<b>P239,765,219</b>	
<b>BALANCES AT DECEMBER 31, 2019</b>	<b>P10,821,389</b>	<b>P 35,906,231</b>	<b>P–</b>	<b>P 8,538,837</b>	<b>P1,024,653</b>	<b>P–</b>	<b>P18,038,315</b>	<b>P112,604,635</b>	<b>(P12,519)</b>	<b>P186,921,541</b>	<b>P67,086,030</b>	<b>P254,007,571</b>	
Net income for the period	–	–	–	–	–	–	–	6,212,562	–	6,212,562	629,887	6,842,449	
Other comprehensive income	–	–	–	–	–	–	(6,749,779)	–	–	(6,749,779)	588,544	(6,161,235)	
Total comprehensive income for the period	–	–	–	–	–	–	(6,749,779)	6,212,562	–	(537,217)	1,218,431	681,214	
Early redemption of preferred shares	–	–	–	(4,700,000)	–	–	–	–	–	(4,700,000)	–	(4,700,000)	
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	(245,583)	245,583	–	–	–	–	
<b>BALANCES AT MARCH 31, 2020</b>	<b>P10,821,389</b>	<b>P35,906,231</b>	<b>P–</b>	<b>P3,838,837</b>	<b>P1,024,653</b>	<b>P–</b>	<b>P11,042,953</b>	<b>P119,062,780</b>	<b>(P12,519)</b>	<b>P181,684,324</b>	<b>P68,304,461</b>	<b>P249,988,785</b>	

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

# LT GROUP, INC. AND SUBSIDIARIES

## INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Three Months Ended March 31	
	2020	2019
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	7,494,796	6,191,585
Adjustments for:		
Depreciation and amortization (Note 22, 23 and 24)	1,364,003	1,105,873
Provision for losses (Note 24)	3,355,542	345,778
Loss (gain) on disposal of other assets (Note 26)	(2,310,442)	(72,950)
Equity in net earnings of associates (Note 10)	(5,111,398)	(2,754,981)
Finance costs (Note 25)	100,630	63,328
Movements in accrued retirement benefits (Note 21)	38,348	(188,761)
Share in losses of joint venture	260,276	238,459
Mark-to-mark gain on financial assets at FVTPL (Note 26)	238,021	(377,000)
Dividend income (Note 26)	—	(7,407)
Finance income (Note 25)	(3,956)	(36,221)
Operating income before changes in working capital	5,425,820	4,507,703
Decrease (increase) in:		
Financial assets at fair value through profit or loss	(11,026,056)	(7,980,493)
Receivables	7,390,103	(9,591,898)
Inventories	(738,310)	(427,385)
Other assets	(2,705,675)	(328,477)
Increase (decrease) in:		
Deposit liabilities	(32,351,456)	9,909,467
Financial liabilities at FVTPL	107,338	(150,082)
Accounts payable and accrued expenses	(22,289)	2,424,099
Other liabilities	(1,573,805)	160,925
Cash generated from operations	(35,494,330)	(1,476,141)
Dividends received	—	7,407
Contributions to retirement plan	(3,381)	(504)
Interest paid	(100,630)	(63,328)
Interest received	3,956	36,221
Income taxes paid, including creditable withholding and final taxes	(1,359,176)	(1,487,930)
Net cash from (used) operating activities	(36,953,561)	(2,984,275)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of:		
Financial assets at FVTOCI (Note 6)	(9,255,361)	(24,691,975)
Property, plant and equipment (Note 11)	(2,122,280)	(1,435,817)
Investment properties (Note 11)	(385,442)	(380,251)
Financial assets at amortized cost	(80,400,533)	(14,124,182)
Software	(66,409)	(91,128)
Investment in joint venture and associates (Note 10)	29,093	(201,295)
Proceeds from sale of:		
Financial assets at amortized cost	81,597,330	19,356,795
Financial assets at FVTOCI (Note 6)	78,234,284	1,339,100
Other assets (Note 12)	27,109	573,903
Advances extended to affiliates	(25,822)	(28)
Net cash generated (used) in investing activities	67,631,969	(19,654,878)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Bills and acceptances payable	70,185,887	120,852,362
Long term negotiable certificate of deposits	—	3,146,542
Payments of:		
Bills and acceptances payable	(80,740,272)	(93,437,388)
Long-term debts (Note 17)	(1,461,324)	(30,562)
Short-term debt	(2,360,000)	—
Net cash generated (used) from financing activities	(14,375,709)	30,530,954
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>16,302,699</b>	<b>7,891,801</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>184,913,132</b>	<b>176,496,004</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)</b>	<b>P201,215,831</b>	<b>P184,387,805</b>

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

## **LT GROUP, INC. AND SUBSIDIARIES**

### **NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Thousands, Except for Par Value Per Share and Basic/Diluted Earnings per Share)

---

#### **1. 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 25, 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 Dr. 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 3 to the interim condensed consolidated financial statements.

As of March 31, 2020, and December 31, 2019, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

---

#### **2. Summary of Significant Accounting and Financial Reporting Policies**

##### Basis of Preparation

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

The interim condensed consolidated financial statements of LTG have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s December 31, 2019 annual consolidated financial statements.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRSs) requires management to make estimates and assumptions that affect the amounts

reported in the interim condensed consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying interim condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the interim condensed consolidated financial statements. Actual results could differ from such estimates.

### Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	March 31, 2020		December 31, 2019		March 31, 2019		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
<b>Distilled Spirits</b>							
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) <sup>(1)</sup>	—	100.0	—	100.0	—	100.0	Philippines
<b>Beverages</b>							
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	—	99.9	—	99.9	—	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited <sup>(2)</sup>	—	90.0	—	90.0	—	90.0	Myanmar
<b>Tobacco</b>							
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
<b>Property Development</b>							
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
<b>Banking</b>							
Bank Holding Companies <sup>(3)</sup>	80-100	—	80-100	—	80-100	—	Various
Philippine National Bank (PNB) and Subsidiaries <sup>(4)</sup>	—	56.5	—	56.5	—	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	—	56.5	—	56.5	—	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	—	56.5	—	56.5	—	56.5	Philippines
PNB Forex, Inc.	—	56.5	—	56.5	—	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	—	56.5	—	56.5	—	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	—	56.5	—	56.5	—	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	—	56.5	—	56.5	—	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	—	56.5	—	56.5	—	56.5	USA
PNB Remittance Centers, Inc. (PNBRCI)	—	56.5	—	56.5	—	56.5	USA
PNB RCI Holding Co. Ltd.	—	56.5	—	56.5	—	56.5	USA

(Forward)

	Percentage of Ownership						Country of Incorporation
	March 31, 2020		December 31, 2019		March 31, 2019		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
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
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	—	50.8	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) <sup>(5)</sup>	—	24.8	—	24.8	—	24.8	Philippines
Allied Leasing and Finance Corporation (ALFC)	—	32.3	—	32.3	—	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	—	28.8	—	28.8	—	28.8	Hong Kong
ACR Nominees Limited	—	28.8	—	28.8	—	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	—	15.7	—	15.7	—	15.7	USA
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) <sup>(6)</sup>	100.0	—	100.0	—	—	—	Singapore
Mabuhay Digital Technologies, Inc.	—	100.0	—	100.0	—	—	Philippines
Mabuhay Digital Philippines, Inc.	—	100.0	—	100.0	—	—	Philippines
Asia's Emerging Dragon Corp.	60.0	40.0	60.0	40.0	—	100.0	Philippines
<sup>(1)</sup> 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.							
<sup>(2)</sup> 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.							
<sup>(3)</sup> As of March 31, 2020 and December 31, 2019, 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.							
<sup>(4)</sup> Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB.							
<sup>(5)</sup> Beginning December 18, 2015, assets and liabilities of APLII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the years ended December 31, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in APLII to Allianz SE (see Note 37).							
<sup>(6)</sup> Incorporated on May 17, 2018, MGHCPL 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.							

## Changes in Accounting Policies and Disclosures

Starting January 1, 2019, the Group applied for the first time the following new and amended accounting standards and interpretations.

### New Standard and Interpretation

- PFRS 16, *Leases*

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

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in

PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

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

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

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

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

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

*Leases previously accounted for as operating leases*

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

The Group also applied the available practical expedients wherein it:

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



Based on the above, as at January 1, 2019:

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

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

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

authority will accept an uncertain tax treatment, the Group shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments. Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. Based on its assessment and in consultation with its tax counsel, the Group determined that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the Interpretation did not have significant impact on the consolidated financial statements of the Group.

#### Amendments to Accounting Standards

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

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

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

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

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

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

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

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

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

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

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

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

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

- Annual Improvements to PFRSs 2015-2017 Cycle

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Standards and Interpretation Issued but not yet Effective

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

*Effective beginning on or after January 1, 2020*

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

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

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

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

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

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

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

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

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

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

*Deferred effectivity*

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

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

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

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

---

### 3. 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 consolidated subsidiaries.
- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, and liquor products. The Group conducts its distilled spirits business through TDI and its consolidated subsidiaries.
- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its consolidated subsidiaries.
- 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.
- 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 consolidated subsidiaries.
- Others, consist of various holding companies (LTG, Paramount, Saturn, Shareholdings, TBI and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD 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 11.0% and 3.0% as of March 31, 2020, respectively, and 19.7% and 4.0% as of December 31, 2019 of the Group's consolidated assets and revenues, respectively.

Further, the measurement of the segments is the same as those described in the summary of significant accounting and financial reporting policies. TDI's investment property is adjusted at the consolidated level to carry it at cost in accordance with the Group's policy. Certain assets and liabilities of PNB are also adjusted at the consolidated level of LTG to reflect the original carrying values prior to the merger of PNB and ABC.

Segment assets are resources owned and segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated.

Segment revenue and expenses are those directly attributable to the segment except that intersegment revenue and expense are eliminated only at the consolidated level. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The components of capital expenditures reported to the CODM are the acquisitions of property, plant and equipment during the period.

The Group's distilled spirits segment derives revenue from two major distributors, which averaged 79% and 85% of the segment's total revenue in 2019 and 2018, respectively. The other segments of the Group have no significant customer, which contributes 10% or more of their segment revenues.



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

For the three months ended March 31, 2020:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	P15,854,932	P5,031,452	P3,724,116	P–	P611,058	P–	P25,221,558
Inter-segment	47,750	30,433	140,806	–	–	(218,989)	–
	15,902,682	5,061,885	3,864,922	–	611,058	(218,989)	25,221,558
Cost of sales	4,026,280	4,275,181	2,763,410	–	170,720	(192,934)	11,042,657
Gross profit	11,876,402	786,704	1,101,512	–	440,338	(26,055)	14,178,901
Equity in net earnings (loss) of associates and joint ventures	(14,589)	–	(245,687)	5,018,865	–	92,533	4,851,122
	11,861,813	786,704	855,825	5,018,865	440,338	66,478	19,030,023
Selling expenses	–	300,475	273,028	–	9,977	–	583,480
General and administrative expenses	10,861,750	204,271	340,421	36,358	230,899	72,017	11,745,716
Operating income	1,000,063	281,958	242,376	4,982,507	199,462	(5,539)	6,700,827
Finance costs	–	(21,680)	(47,931)	–	(75,489)	44,470	(100,630)
Finance income	–	38	2,688	8,698	10,829	(18,297)	3,956
Foreign exchange gains (losses)- net	153,814	(667)	–	–	(39)	634	153,742
Other income (charges) – net	593,312	6,219	12,354	16,952	104,865	3,199	736,901
Income before income tax	1,747,189	265,868	209,487	5,008,157	239,628	24,467	7,494,796
Provision for income tax	376,545	66,681	135,674	1,664	70,498	1,285	652,347
Segment profit	P1,370,644	P199,187	P73,813	P5,006,493	P169,130	P23,182	P6,842,449
Depreciation and amortization expense	P718,166	P112,936	P408,371	P11,456	P104,771	P8,303	P1,364,003
Segment profit attributable to:							
Equity holders of the Company	763,016	198,889	73,585	4,985,403	168,487	23,182	6,212,562
Non-controlling interests	607,628	298	228	21,090	643	–	629,887

Other financial information of the operating segments as of March 31, 2020 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	P533,394,195	P14,871,525	P17,424,378	P2,515,552	P8,093,940	(P3,391,429)	P572,908,161
Noncurrent assets	569,923,040	9,398,001	15,645,531	23,345,442	22,566,088	1,391,316	642,269,418
	<b>P1,103,317,235</b>	<b>P24,269,526</b>	<b>P33,069,909</b>	<b>P25,860,994</b>	<b>P30,660,028</b>	<b>(2,000,113)</b>	<b>P1,215,177,579</b>
Liabilities:							
Current liabilities	P805,330,306	P5,662,933	P8,523,341	P292,901	P6,507,188	(P8,447,857)	P817,868,812
Noncurrent liabilities	141,409,701	868,631	1,642,649	72,905	6,148,313	(2,822,217)	147,319,982
	<b>P946,740,007</b>	<b>P6,531,564</b>	<b>P10,165,990</b>	<b>P365,806</b>	<b>P12,655,501</b>	<b>(11,270,074)</b>	<b>P965,188,794</b>
Investments in associates and joint ventures	P2,308,922	P–	P28,296	P19,821,507	P–	P5,511,405	P27,670,130
Equity attributable to:							
Equity holders of the Company	153,665,284	17,557,790	22,866,329	25,495,188	18,004,527	(55,904,794)	181,684,324
Non-controlling interests	2,911,944	180,172	37,590	–	–	65,174,755	68,304,461
Short-term debts	–	900,000	2,790,000	–	–	(900,000)	2,790,000
Long-term debts	68,259,558	462,701	584,773	–	5,263,173	(3,462,073)	71,108,132

For the three months ended March 31, 2019:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	<b>P12,938,872</b>	<b>P4,725,202</b>	<b>P3,601,469</b>	<b>P–</b>	<b>P645,800</b>	<b>P–</b>	<b>P21,911,343</b>
Inter-segment	<b>59,180</b>	<b>394</b>	<b>255,600</b>	<b>–</b>	<b>–</b>	<b>(315,174)</b>	<b>–</b>
	<b>12,998,052</b>	<b>4,725,596</b>	<b>3,857,069</b>	<b>–</b>	<b>645,800</b>	<b>(315,174)</b>	<b>21,911,343</b>
Cost of sales	<b>4,243,683</b>	<b>3,906,503</b>	<b>2,780,192</b>	<b>–</b>	<b>226,014</b>	<b>(378,045)</b>	<b>10,778,347</b>
Gross profit	<b>8,754,369</b>	<b>819,093</b>	<b>1,076,877</b>	<b>–</b>	<b>419,786</b>	<b>62,871</b>	<b>11,132,996</b>
Equity in net earnings (loss) of associates and joint ventures	<b>(37,009)</b>	<b>–</b>	<b>(201,450)</b>	<b>2,693,120</b>	<b>–</b>	<b>61,861</b>	<b>2,516,522</b>
	<b>8,717,360</b>	<b>819,093</b>	<b>875,427</b>	<b>2,693,120</b>	<b>419,786</b>	<b>124,732</b>	<b>13,649,518</b>
Selling expenses	<b>–</b>	<b>352,062</b>	<b>317,490</b>	<b>–</b>	<b>26,387</b>	<b>–</b>	<b>695,939</b>
General and administrative expenses	<b>7,015,067</b>	<b>176,406</b>	<b>348,243</b>	<b>45,900</b>	<b>184,382</b>	<b>45,919</b>	<b>7,815,917</b>
Operating income	<b>1,702,293</b>	<b>290,625</b>	<b>209,694</b>	<b>2,647,220</b>	<b>209,017</b>	<b>78,813</b>	<b>5,137,662</b>
Finance costs	<b>–</b>	<b>(25,341)</b>	<b>(35,458)</b>	<b>–</b>	<b>(70,615)</b>	<b>68,086</b>	<b>(63,328)</b>
Finance income	<b>–</b>	<b>372</b>	<b>4,522</b>	<b>111,546</b>	<b>23,525</b>	<b>(103,744)</b>	<b>36,221</b>
Foreign exchange gains (losses)- net	<b>180,091</b>	<b>(3,792)</b>	<b>–</b>	<b>–</b>	<b>248</b>	<b>(373)</b>	<b>176,174</b>
Other income (charges) – net	<b>691,072</b>	<b>14,162</b>	<b>13,024</b>	<b>118,900</b>	<b>67,161</b>	<b>537</b>	<b>904,856</b>
Income before income tax	<b>2,573,456</b>	<b>276,026</b>	<b>191,782</b>	<b>2,877,666</b>	<b>229,336</b>	<b>43,319</b>	<b>6,191,585</b>
Provision for income tax	<b>626,006</b>	<b>41,669</b>	<b>109,313</b>	<b>27,606</b>	<b>79,968</b>	<b>2,987</b>	<b>887,549</b>
Segment profit	<b>P1,947,450</b>	<b>P234,357</b>	<b>P82,469</b>	<b>P2,850,060</b>	<b>P149,368</b>	<b>P40,332</b>	<b>P5,304,036</b>
Depreciation and amortization expense	<b>P485,811</b>	<b>P160,519</b>	<b>P366,699</b>	<b>P8,637</b>	<b>P79,576</b>	<b>P5,233</b>	<b>P1,106,475</b>
Segment profit attributable to:							
Equity holders of the Company	<b>1,085,601</b>	<b>229,275</b>	<b>79,667</b>	<b>2,838,039</b>	<b>148,800</b>	<b>40,332</b>	<b>4,421,714</b>
Non-controlling interests	<b>861,849</b>	<b>5,082</b>	<b>2,802</b>	<b>12,021</b>	<b>568</b>	<b>–</b>	<b>882,322</b>

Other financial information of the operating segments as of December 31, 2019 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	P488,857,140	P12,923,043	P16,840,868	P5,180,278	P9,237,156	(P5,902,547)	P527,135,938
Noncurrent assets	665,367,850	9,193,536	15,700,574	22,718,539	22,590,537	3,123,579	738,694,615
	P1,154,224,990	P22,116,579	P32,541,442	P27,898,817	P31,827,693	(P2,778,968)	P1,265,830,553
Liabilities:							
Current liabilities	P865,580,704	P3,719,389	P7,764,522	P1,317,834	P7,743,432	(P9,464,258)	P876,661,623
Noncurrent liabilities	129,363,371	875,491	1,606,108	103,082	6,248,863	(3,035,556)	135,161,359
	P994,944,075	P4,594,880	P9,370,630	P1,420,916	P13,992,295	(P12,499,814)	P1,011,822,982
Investments in associates and joint ventures	P2,605,473	P—	P21,171	P19,193,993	P—	P5,433,641	P27,254,278
Equity attributable to:							
Equity holders of the Company	156,398,876	17,341,825	23,133,222	26,477,901	17,835,398	(54,265,681)	186,921,541
Non-controlling interests	2,882,039	179,874	37,590	—	—	63,986,527	67,086,030
Short-term debts	—	200,000	2,850,000	—	—	2,100,000	5,150,000
Long-term debts	68,421,487	433,209	596,589	—	6,764,380	(3,646,209)	72,569,456

#### 4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Cash and other cash items	<b>₱26,797,466</b>	₱33,823,608
Cash equivalents:		
Due from <i>Bangko Sentral ng Pilipinas</i> (BSP)	<b>104,450,985</b>	105,981,801
Due from other banks	<b>33,539,294</b>	17,758,143
Interbank loans receivable	<b>31,196,256</b>	24,831,816
Securities held under agreements to resell	<b>5,231,830</b>	2,517,764
	<b>₱201,215,831</b>	₱184,913,132

- 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.
- 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.
- Interest earned on cash and other cash items and cash equivalents are presented under “Finance income” and “Banking revenue”, respectively (see Note 22 and 25).

#### 5. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss consist of:

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Government securities	<b>₱19,331,494</b>	₱8,503,822
Private debt securities	<b>3,311,808</b>	3,130,156
Equity securities	<b>1,209,970</b>	1,455,435
Derivative assets (Note 19)	<b>397,955</b>	373,040
Unit investment trust fund	<b>6,188</b>	6,927
	<b>₱24,257,415</b>	₱13,469,380

## 6. Financial assets at fair value through other comprehensive income (FVTOCI)

Financial Assets at FVTOCI consist of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Government securities	<b>₱33,331,419</b>	₱91,540,723
Other debt securities	<b>17,442,324</b>	30,390,001
Equity securities:		
Quoted	<b>1,393,801</b>	4,174,897
Unquoted	<b>1,696,789</b>	1,412,000
	<b>53,864,333</b>	127,517,621
Noncurrent portion	<b>(40,272,511)</b>	(110,549,031)
	<b>₱13,591,822</b>	₱16,968,590

## 7. Loans and Receivables

Loans and receivables consist of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Finance receivables	<b>₱670,042,750</b>	₱672,252,455
Trade receivables	<b>16,546,840</b>	15,273,662
Other receivables	<b>3,312,347</b>	3,401,409
	<b>689,901,937</b>	690,927,526
Allowance for credit losses	<b>(23,948,373)</b>	(18,747,178)
	<b>665,953,564</b>	672,180,348
Noncurrent portion	<b>(394,806,750)</b>	(411,253,754)
	<b>₱271,146,814</b>	₱260,926,594

### Finance Receivables

Finance receivables pertain to receivables of the banking segment which consist of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Receivables from customers:		
Loans and discounts	<b>₱615,465,243</b>	₱616,615,375
Customers' liabilities on acceptances, letters of credit and trust receipts	<b>13,750,316</b>	10,185,304
Bills purchased	<b>1,123,669</b>	1,945,838

(Forward)

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Credit card receivables	<b>P14,669,204</b>	P15,869,946
Finance lease receivables	<b>3,020,519</b>	3,079,713
	<b>648,028,951</b>	647,696,176
Other receivables:		
Accounts receivable	<b>9,009,578</b>	9,932,268
Accrued interest receivable	<b>7,047,576</b>	7,814,819
Sales contract receivables	<b>6,115,297</b>	6,849,281
Miscellaneous	<b>377,855</b>	411,102
	<b>22,550,306</b>	25,007,470
	<b>670,579,257</b>	672,703,646
Unearned interest and other deferred income	<b>(536,507)</b>	(451,191)
	<b>670,042,750</b>	672,252,455
Allowance for credit losses	<b>(23,548,246)</b>	(18,413,228)
	<b>646,494,504</b>	653,839,227
Noncurrent portion	<b>(394,233,650)</b>	(410,579,450)
	<b>P252,260,854</b>	P243,259,777

Trade receivables

Trade receivables consist of:

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Consumer goods	<b>P15,500,157</b>	P13,899,237
Contract receivables	<b>1,034,415</b>	1,374,425
Lease receivables	<b>12,268</b>	—
	<b>16,546,840</b>	15,273,662
Allowance for credit losses	<b>(388,887)</b>	(322,710)
	<b>16,157,953</b>	14,950,952
Noncurrent portion of contract receivables	<b>(573,100)</b>	(674,304)
	<b>P15,584,853</b>	P14,276,648

## 8. Inventories

Inventories consist of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
<b>At Cost:</b>		
Consumer goods:		
Alcohol	<b>₱3,796,528</b>	₱3,247,739
Beverage	<b>2,601,843</b>	2,886,739
	<b>6,398,371</b>	6,134,478
Real estate inventories:		
Condominium and residential units for sale	<b>201,614</b>	507,099
Subdivision land under development	<b>4,140,139</b>	4,543,419
Land held for future development	<b>217,542</b>	217,542
	<b>4,559,295</b>	5,268,060
Fuel, materials and supplies	<b>967,109</b>	1,006,896
	<b>11,924,775</b>	12,409,434
<b>At NRV -Materials and supplies</b>	<b>1,010,406</b>	698,770
	<b>₱12,935,181</b>	₱13,108,204

## 9. Other Current Assets

Other current assets consist of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Creditable withholding taxes (CWT)	<b>₱4,220,929</b>	₱4,488,682
Advances to suppliers	<b>2,163,323</b>	1,629,372
Prepaid expenses	<b>1,956,111</b>	1,399,984
Input VAT	<b>1,478,447</b>	1,519,068
Deferred reinsurance premiums	<b>910,283</b>	1,135,113
Stationeries, office supplies and stamps on hand	<b>765,147</b>	86,843
Excise tax	<b>302,651</b>	185,043
Deferred rent	<b>255,907</b>	244,206
Miscellaneous cash and other cash items	<b>131,442</b>	86,542
Deferred charges	<b>3,091</b>	3,134
Security deposit	<b>222</b>	44,132
Others	<b>712,753</b>	557,146
	<b>₱12,900,306</b>	₱11,379,265



## 10. 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, VMC, AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and Ayala-Eton Development Corporation (AEDC) which are jointly controlled entities.

	Ownership		Amount	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
<i>(In Thousands)</i>				
<i>Associates:</i>				
PMFTC	49.6%	49.6%	<b>P19,031,307</b>	P18,418,620
VMC	30.9%	30.9%	<b>2,988,933</b>	2,898,208
AB HPI	50.0%	50.0%	—	—
APLII	44.0%	44.0%	<b>2,308,922</b>	2,605,473
<i>Joint Ventures:</i>				
ABI Pascual Holdings	50.0%	50.0%	<b>28,296</b>	21,171
AEDC	50.0%	50.0%	<b>3,312,672</b>	3,310,806
			<b>P24,357,458</b>	P27,254,278

### *Investment in PMFTC*

On February 25, 2010, FTC and Philip Morris Philippines Manufacturing, Inc. (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 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 PMPMI and confirmed the execution of the Termination Agreement.

*Investment in VMC*

On December 21, 2007, the Company acquired 170.1 million shares representing 10.67% ownership in the shares of stock of VMC for P85.1 million presented as AFS investments as of December 31, 2013.

On various dates in April and May 2014, LTG acquired shares of stock of VMC amounting to P413.6 million, which increased its ownership interest to 17.5%, and convertible notes amounting to P359.3 million, which would increase LTG's interest to 23.5% upon conversion. In 2014, portion of the convertible notes amounting to P117.8 million was converted to shares of stock of VMC resulting in an increase in LTG's ownership interest to 20.2% as of December 31, 2014. The cost-based approach was applied in accounting for the step acquisition of VMC as an associate. Accordingly, LTG reclassified the original cost of its AFS investments to investment in an associate and derecognized the net changes in fair value of AFS investments amounting to P238.2 million. The difference of P334.8 million between the sum of the consideration for the 17.5% ownership interest amounting to P498.7 million and the share in fair value of net assets of VMC at the date the investment became an associate amounting to P833.5 million was recognized as part of the equity in net earnings of VMC in 2014.

In 2015, a portion of the convertible notes amounting to P124.1 million was converted to shares of stock of VMC resulting to an increase in LTG's ownership interest to 22.5% as of December 31, 2015. The difference of P17.6 million between the sum of the consideration for the additional 2.3% ownership interest amounting to P124.1 million and the share in fair value of net assets of VMC at the date of the conversion amounting to P141.7 million was recognized as part of the equity in net earnings of VMC in 2015.

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 March 31, 2020 and December 31, 2019.

*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.

The Group's subscription to AB HPI's capital stock and sale of nonmonetary assets to AB HPI is viewed as linked-transaction and is accounted for as contribution of nonmonetary assets to an associate. As a result, the Group recognized the investment amounting to ₱1,843.6 million representing 50% of the fair value of AB HPI's net assets. The transaction was accounted for in accordance with PFRS 10, paragraph 25, where the Group recognized the gain arising from the contribution of nonmonetary assets amounting to ₱1,056.2 million in full.

#### *Investment in APLII*

On December 21, 2015, PNB entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of PNB and PNB Savings Bank.

The sale of APLII was completed on June 6, 2016 for a total consideration of US\$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US\$66.0 million (₱3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US\$44.9 million (₱2.1 billion) and US\$21.1 million (₱1.0 billion), respectively.

PNB will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Group recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The deferred revenue amounting to ₱976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 18). Amortization amounting to ₱36.5 million was recognized in 2016. Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, PNB accounted for its remaining 44% ownership interest in APLII as an associate. At the date of loss of control, PNB's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. PNB recognized gain on remeasurement amounting to ₱1.6 billion in the 2016 consolidated statement of income.

The fair value of the retained equity was based on a combination of the income approach and market approach.

On September 21, 2016, the Philippine SEC approved the amendment of PNB Life Insurance, Inc.'s article of incorporation to reflect the change in corporate name to Allianz-PNB Life Insurance, Inc.

*Investment in ABI Pascual Holdings*

On February 15, 2012, ABI and Corporation Empresarial Pascual, S. L. (CEP), an entity organized and existing under the laws of Spain, agreed to form ABI Pascual Holdings, a jointly controlled entity organized and domiciled in Singapore. In accordance with the Agreement, ABI and CEP (the “venturers”) will hold 50% interest in ABI Pascual Holdings. Further, the arrangement requires unanimous agreement for financial and operating decisions among venturers.

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and domiciled in the Philippines that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to ₱20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to ₱40.2 million. The joint venture has started operations in September 2013.

*Investment in AEPDC*

On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused ₱20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC’s increase in authorized capital stock for a consideration totaling to ₱252.0 million. Unpaid subscription in shares of stock of AEPDC included as part of “Subscription payable” account amounted to ₱30.5 million as of December 31, 2017.

On November 20, 2017, the Company made additional capital infusion amounting to ₱400.5 million for the joint venture’s initial purchase of land.

Additional investments in various dates within the year 2018, amounted to ₱1.1 billion.

---

**11. Additions to Property, Plant and Equipment and Investment Properties**

Additions to property, plant and equipment amounted to ₱2,122.3 million while retirement and disposals amounted to ₱220.0 million for the period ended March 31, 2020.

Additions to investment properties amounted to ₱385.4 million while retirement and disposals amounted to ₱21.0 million for the period ended March 31, 2020.

## 12. Other Noncurrent Assets

Other noncurrent assets consist of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Software costs	<b>P2,653,874</b>	P2,326,055
Miscellaneous assets	<b>1,058,123</b>	843,967
Advances to suppliers	<b>1,034,842</b>	1,324,642
Deferred charges	<b>809,606</b>	743,727
Prepaid excise taxes	<b>771,713</b>	797,388
Creditable withholding taxes	<b>392,593</b>	380,442
Distribution network access	<b>272,414</b>	272,414
Net retirement plan assets (Note 21)	<b>256,578</b>	259,959
Refundable and security deposits	<b>219,153</b>	222,020
Goodwill	<b>163,735</b>	163,735
Chattel properties - net	<b>113,345</b>	168,661
Deferred input VAT	<b>90,063</b>	398,812
Checks for clearing	<b>—</b>	7,079
Others – net	<b>806,985</b>	657,448
	<b>8,643,024</b>	8,566,349
Allowance for probable losses	<b>(1,058,123)</b>	(1,058,123)
	<b>P7,584,901</b>	P7,508,226

## 13. Deposit Liabilities

Deposit liabilities consists of:

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Demand	<b>P180,935,115</b>	P172,228,956
Savings	<b>392,081,522</b>	383,963,252
Time	<b>213,936,407</b>	262,046,747
	<b>786,953,044</b>	818,238,955
Presented as noncurrent	<b>(45,682,589)</b>	(46,095,883)
Presented as current	<b>P741,270,455</b>	P772,143,072

#### 14. 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 P353.0 million and P245.6 million as of March 31, 2020 and December 31, 2019, respectively.

#### 15. Bills and Acceptances Payable

Bills and acceptance payable consist of:

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Bills payable to:		
BSP and local banks	<b>P41,173,074</b>	P52,664,371
Foreign banks	<b>635,195</b>	606,585
Others	—	—
	<b>41,808,269</b>	53,270,956
Acceptances outstanding	<b>3,600,636</b>	2,692,334
	<b>45,408,905</b>	55,963,290
Less noncurrent portion	<b>(14,985,683)</b>	(4,141,689)
Current portion	<b>P30,423,222</b>	P51,821,601

#### 16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Trade payables	<b>P12,843,812</b>	P13,171,309
Nontrade payables	<b>2,166,050</b>	1,297,631
Accrued expenses:		
Purchase of materials and supplies and others	<b>3,064,039</b>	2,872,621
Interest	<b>1,858,513</b>	1,972,156
Other benefits - monetary leave credits	<b>1,296,816</b>	1,436,248
Taxes and licenses	<b>829,866</b>	1,161,301
Advertising and promotional expenses	<b>818,463</b>	673,648
Retention payable	<b>769,710</b>	771,080
Project development costs	<b>682,229</b>	1,024,700
PDIC insurance premiums	<b>481,228</b>	843,677
Information technology-related expenses	<b>256,288</b>	182,057
Rent and utilities payable	<b>191,231</b>	308,953
Due to government agencies	<b>114,860</b>	134,338
Output value added tax	<b>160,658</b>	120,775
Other payables	<b>1,144,410</b>	726,135
	<b>P26,678,173</b>	P26,700,462

## 17. Short-term and Long-term Debts

### Short-term Debts

As of March 31, 2020, and December 31, 2019, outstanding unsecured short-term debts amounted to ₱2.8 billion and ₱5.2 billion, respectively. The loans are subject to annual interest rates ranging from 6.1% to 8.0% in 2020 and 6.3% to 7.3% in 2019, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

### Long-term Debts

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Bonds payable	<b>₱66,695,175</b>	₱66,615,078
Lease liabilities	<b>3,027,615</b>	3,247,876
Unsecured term loan	<b>920,988</b>	2,334,259
Notes payable	<b>464,354</b>	372,243
	<b>71,108,132</b>	72,569,456
Current portion	<b>(873,347)</b>	(1,002,593)
Noncurrent portion	<b>₱70,234,785</b>	₱71,566,863

### *PNB's Bonds Payable*

#### 4.25% USD 300 Million Fixed Rate Medium Term Note

On April 26, 2018, the Group issued 4.25% fixed coupon rate (EIR of 4.43%) unsecured medium term note listed on the Singapore Stock Exchange at par value of \$300 million in preparation for the higher capital and liquidity requirements required by the Bangko Sentral ng Pilipinas in the succeeding year. The bonds have an issue price of 99.532%, interest payable at semi-annual, tenor of five years and a day, and maturity of April 27, 2023.

As of December 31, 2019, the unamortized transaction cost of bonds payable amounted to ₱421.7 million. Amortization of transaction costs amounting to ₱98.5 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income.

### *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. Interest costs from subordinated debts are included in the "Cost of banking services".

### *Compliance with debt covenants*

As of March 31, 2020 and December 31, 2019, the Group has complied with the financial and non-financial covenants of its long-term debts.

## 18. Other Liabilities

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Insurance contract liabilities	<b>P5,340,526</b>	P5,745,820
Payable to landowners	<b>2,004,181</b>	1,828,949
Managers' checks and demand drafts outstanding	<b>1,618,815</b>	1,393,535
Reserve for unearned premiums	<b>1,263,619</b>	1,470,274
Other dormant credits	<b>1,117,570</b>	1,100,311
Customers' deposits	<b>1,051,405</b>	978,618
Provisions (Note 38)	<b>969,106</b>	969,106
Deposit on lease contracts	<b>833,414</b>	833,853
Other deferred revenue (Note 12)	<b>732,275</b>	1,188,312
Bills purchased - contra (Note 8)	<b>692,254</b>	1,348,148
Due to Treasurer of the Philippines	<b>680,786</b>	681,835
Interoffice floats	<b>537,628</b>	1,584,289
Due to other banks	<b>534,169</b>	538,612
Tenants' rental deposits	<b>463,433</b>	560,992
Margin deposits and cash letters of credit	<b>439,058</b>	224,873
Payment order payable	<b>417,083</b>	333,909
Miscellaneous tax securities	<b>319,816</b>	414,051
Withholding taxes payable	<b>290,789</b>	385,294
Advance rentals	<b>64,498</b>	65,710
Others	<b>1,526,972</b>	342,995
	<b>18,866,869</b>	21,989,486
Presented as noncurrent	<b>(6,146,866)</b>	(3,147,053)
	<b>P14,246,975</b>	P18,842,433

## 19. Derivative Financial Instruments

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

	March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>P127,421</b>	P103,980
Changes in fair value	<b>(123,101)</b>	(666,851)
Availments	<b>40,678</b>	690,292
	<b>P44,998</b>	P127,421

The changes in fair value of the derivatives are included in "Trading and investments securities gains - net" presented as part of "Banking revenues" in the consolidated statements of income (see Note 22).



## 20. Related Party Transactions

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:

		<b>Three Months Ended March 31</b>	
		<b>2020</b>	2019
		<b>(Unaudited)</b>	(Unaudited)
		<i>(In Thousands)</i>	
<b>Associate</b>	Dividend income	<b>P4,406,177</b>	P1,621,144
	Purchases of inventories	<b>(136,818)</b>	(380,227)
	Sales	<b>129,203</b>	95,240
	Lease	<b>8,775</b>	9,302
<b>Entities Under Common Control</b>	Banking revenue - interest on loans and receivables	<b>29,566</b>	62,794
	Sales of consumer products	<b>7,664</b>	6,551
	Rent income	<b>4,492</b>	1,902
	Freight and handling	<b>(3,451)</b>	(354)
	Cost of banking services - interest expense on deposit liabilities	<b>(283,928)</b>	(31,397)
	Cost of sales and services	<b>(509)</b>	(531)
	Management and professional fee	<b>(145,448)</b>	(131,999)
	Rent expense	<b>(5,925)</b>	(16,402)

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

			Outstanding Balance	
			March 31, 2020 (Unaudited)	December 31, 2019 (Audited)
Financial Statement Account		Terms and Conditions	(In Thousands)	
Parent Company	Due to related parties	On demand; non-interest bearing	(P15,325)	(P15,325)
	Due from related parties	On demand; non-interest bearing	509,000	509,000
Associate	Other receivables - dividends	30 to 90 days terms; non-interest bearing	—	—
	Trade receivables	- do -	1,197,250	1,197,250
	Nontrade receivables	- do -	266,985	266,985
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(490,957)	(490,957)
Entities Under Common Control	Finance Receivables	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments	37,235,349	39,487,080
	Trade receivables	- do -	11,900	14,298
	Other receivables	- do -	16,713	16,590
	Due from related parties	On demand; non-interest bearing	1,546,258	778,948
	Advances to suppliers	- do -	7,983	3,026
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	12,049,469	15,138,059
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	(294,385)	(376,414)
	Due to related parties	On demand; non-interest bearing	(50,000)	(50,000)
	Other payables	30 to 90 days terms; non-interest bearing	—	—

As of March 31, 2020, and December 31, 2019, 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.

## 21. Retirement Benefits

Details of the Group's net retirement plan assets and liabilities are as follows:

	<b>March 31, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
	<i>(In Thousands)</i>	
Net retirement plan assets:		
FTC	<b>P242,001</b>	P246,112
TDI	<b>2,648</b>	2,648
TBI	<b>3,741</b>	3,011
LTG	<b>8,188</b>	8,188
	<b>P256,578</b>	P259,959
Net retirement benefits liabilities:		
PNB and subsidiaries	<b>P763,956</b>	P776,936
ABI and subsidiaries	<b>797,840</b>	749,049
ADI	<b>28,978</b>	29,578
AAC	<b>15,788</b>	15,452
Eton and subsidiaries	<b>131,529</b>	128,728
	<b>P1,447,440</b>	P1,699,743

### Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). The fair value of the plan assets as of March 31, 2020 and December 31, 2019 for the Group includes investments in the PNB shares of stock with fair value amounting to P305.0 million classified as financial assets at FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of March 31, 2020 and December 31, 2019, financial assets at FVTPL and at amortized costs include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts placement with BSP.

The retirement funds of the other companies in the Group are maintained by PNB, as the trustee bank. PNB's retirement funds have no investments in debt or equity securities of the companies in the Group.

## 22. Revenue and Cost of Sales and Services

Revenue consists of:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Banking revenue	<b>P15,854,932</b>	P12,938,872
Sale of consumer goods	<b>8,755,568</b>	8,326,671
Real estate sales	<b>140,785</b>	246,277
Rental income	<b>470,273</b>	399,523
	<b>P25,221,558</b>	P21,911,343

Sale of consumer goods consists of:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Gross sales	<b>P9,261,142</b>	P8,916,453
Less sales returns, discounts and allowances	<b>505,574</b>	589,782
	<b>P8,755,568</b>	P8,326,671

Banking revenue consists of:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Interest income on:		
Loans and receivables	<b>P10,095,833</b>	P9,013,508
Trading and investment securities	<b>1,944,398</b>	1,756,855
Deposits with banks and others	<b>343,939</b>	146,797
Interbank loans receivable	<b>152,667</b>	139,519
	<b>12,536,837</b>	11,056,679
Trading and securities gains	<b>2,059,990</b>	676,809
Service fees and commission income	<b>1,258,105</b>	1,184,714
	<b>P15,854,932</b>	P12,918,202

Cost of sales and services consists of:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Cost of consumer goods sold:		
Materials used and changes in inventories	<b>₱5,022,913</b>	₱4,500,993
Depreciation and amortization	<b>381,852</b>	396,603
Fuel and power	<b>282,654</b>	348,900
Personnel costs	<b>261,648</b>	286,924
Taxes and licenses	<b>279,991</b>	274,906
Communication, light and water	<b>172,671</b>	205,788
Repairs and maintenance	<b>114,324</b>	138,126
Outside services	<b>113,518</b>	102,965
Freight and handling	<b>98,288</b>	86,861
Others	<b>139,493</b>	88,635
	<b>6,867,352</b>	6,430,701
Cost of banking services	<b>4,004,584</b>	4,121,632
Cost of real estate sales	<b>57,384</b>	126,868
Cost of rental income	<b>113,337</b>	99,146
Cost of sales and services	<b>₱11,042,657</b>	₱10,778,347

Other expenses include insurance, occupancy fees and representation which are not significant as to amounts.

Cost of banking services consist of:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Interest expense on:		
Deposit liabilities	<b>₱2,689,347</b>	₱3,283,866
Bonds payable	<b>726,320</b>	172,678
Bills payable and other borrowings	<b>296,374</b>	447,702
Services fees and commission expense	<b>292,543</b>	217,386
	<b>₱4,004,584</b>	₱4,121,632

## 23. Selling Expenses

	Three Months Ended March 31	
	2020 (Unaudited)	2019 (Unaudited)
	<i>(In Thousands)</i>	
Advertising and promotions	<b>P260,205</b>	P342,555
Freight and handling	<b>126,229</b>	139,771
Depreciation and amortization	<b>77,406</b>	72,582
Personnel costs	<b>36,554</b>	31,630
Management, consulting and professional fees	<b>27,991</b>	43,645
Commissions	<b>8,763</b>	21,930
Materials and consumables	<b>4,468</b>	8,108
Repairs and maintenance	<b>658</b>	2,337
Others	<b>41,206</b>	33,381
	<b>P583,480</b>	P695,939

Others include occupancy fees, insurance, donations, membership and subscription dues, which are individually not significant as to amounts.

## 24. General and Administrative Expenses

	Three Months Ended March 31	
	2020 (Unaudited)	2019 (Unaudited)
	<i>(In Thousands)</i>	
Personnel costs	<b>P2,825,187</b>	P2,707,808
Provision for credit losses	<b>3,355,542</b>	345,778
Taxes and licenses	<b>1,523,816</b>	1,243,666
Depreciation and amortization	<b>823,588</b>	576,992
Insurance	<b>576,004</b>	474,530
Marketing expenses	<b>394,661</b>	359,319
Policyholder benefits and claim benefits	<b>292,543</b>	217,386
Information technology	<b>287,444</b>	152,346
Management, consulting and professional fees	<b>247,833</b>	229,809
Occupancy	<b>245,857</b>	431,224
Outside services	<b>244,853</b>	260,203
Travel and transportation	<b>117,421</b>	112,030
Communication, light and water	<b>84,090</b>	61,134
Materials and consumables	<b>75,163</b>	73,487
Repairs and maintenance	<b>53,657</b>	33,380
Freight and handling	<b>5,088</b>	1,534
Fuel and oil	<b>4,682</b>	3,169
Others	<b>588,287</b>	532,122
	<b>P11,745,716</b>	P7,815,917

## 25. Finance Costs and Finance Income

Details of finance costs and finance income (other than the banking segment) are as follows:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Finance costs (Note 17):		
Short-term debts	<b>P60,923</b>	P35,458
Unsecured term loan and notes payable	<b>39,707</b>	27,870
	<b>P100,630</b>	P63,328
Finance income:		
Cash and other cash items (Note 4)	<b>P2,349</b>	P29,560
Interest-bearing contracts receivable (Note 7)	<b>1,607</b>	6,661
	<b>P3,956</b>	P36,221

## 26. Other Income (Charges) - net

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Net insurance premium	<b>P277,981</b>	P281,911
Rental income	<b>175,162</b>	180,823
Net gains on sale or exchange of assets	<b>27,976</b>	182,583
Dividend income	<b>10,200</b>	7,407
Recoveries	<b>7,561</b>	18,113
Processing and referral fees	<b>1,028</b>	695
Others	<b>236,993</b>	233,324
	<b>P736,901</b>	P904,856

## 27. Income Taxes

Income taxes include the corporate income tax, 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%. RA No. 9294 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 10.00% income tax.

Provision for current income tax consists of:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
RCIT/MCIT	<b>P1,050,429</b>	P666,363
Final tax	<b>258,263</b>	258,046
Provision for current income tax	<b>P1,308,692</b>	P924,409

## 28. Equity

### Capital Stock

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

Authorized capital stock at P1 par value	
At the beginning and end of the period	<b>25,000,000,000 shares</b>
Issued capital stock at P1 par value:	
At the beginning and end of the period	<b>P10,821,388,889</b>

## 29. Basic/Diluted Earnings Per Share

Basic/diluted earnings per share were calculated as follows:

	<b>Three Months Ended March 31</b>	
	<b>2020</b>	<b>2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>(In Thousands)</i>	
Net income attributable to equity holders of the Company	<b>P6,212,562</b>	P4,421,714
Divided by weighted-average number of shares	<b>10,821,389</b>	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	<b>P0.57</b>	P0.41



---

### 30. 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 the banking segment's Executive Committee. Credit risk assessment of individual borrower is performed by the business sector and remedial 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 banking segment 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 (cash releases and cash collection for the month)
  - c. loss rate
  - d. recovery rate
  - e. trend of nonperforming loans (NPLs)
  - f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The banking segment collects data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the banking segment's model for internal Probability of Default (PD) and Loss Given Default (LGD).

### *Credit-related commitments*

The exposures represent guarantees, standby letters of credit (LCs) issued by the banking segment and documentary/commercial LCs which are written undertakings by the banking segment.

To mitigate this risk, the banking segment requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

### *Derivative financial instruments*

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated balance sheet.

#### *Unit-linked financial assets*

The banking segment issues unit-linked insurance policies. In the unit-linked business, the policy holder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the banking segment has no material credit risk on unit-linked financial assets.

#### *Collateral and other credit enhancement*

As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The banking segment follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - cash, 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.

The banking segment's 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*

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

For loans and receivables, the banking segment sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50% of SBL if rated below CRR 5

For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Concentration by Industry

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*

The credit quality of financial assets used by the banking segment 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 Credit Risk Rating (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 ₱15.0 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.

Standard

- 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.

Sub-standard Grade

- 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 ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs 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.

#### Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody’s Investors Service) as follows:

Aaa to Aa3 - fixed income is judged to be of high quality and is subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

#### Impairment assessment

The Group recognizes impairment or credit losses based on the results of specific (individual) and collective assessment of its credit exposures. A possible impairment has taken place when there is presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment or credit losses include:

- a. Specific (individual) assessment  
The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

- the going concern of the borrower's business;
- the ability of the borrower to repay its obligations during financial crises;
- the projected receipts or expected cash flows;
- the availability of other sources of financial support;
- the existing realizable value of collateral; and
- the timing of the expected cash flows.

The impairment or credit allowance, if any, are evaluated every quarter or as the need arises in view of favorable or unfavorable developments.

b. Collective assessment

Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio;
- losses which are likely to occur but has not yet occurred; and
- expected receipts and recoveries once impaired.

See Notes 7 and 8 for more detailed information on the allowance for credit losses on loans and receivables and other financial assets.

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.

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 parameter 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 bechecked 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 VA 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.

### **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 repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The banking segment's BOD sets a limit on the level of earnings at risk (EaR) exposure tolerable to the banking segment. Compliance to the EaR limit is monitored monthly by the RMG. This EaR computation is accomplished monthly, with a quarterly stress test.

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.

### **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.

#### 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.

#### 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.

*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, 2017 and 2016, 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.

---

### **31. Fair Values of Financial Instruments**

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 financial assets through other comprehensive income. 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.

The Group's management determines the policies and procedures for both recurring and non-recurring fair value measurement.

External valuers are involved for valuation of significant assets, such as investment properties, land and land improvements, plant buildings and building improvements and machineries and equipment. Involvement of external valuers is decided upon annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

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

As of March 31, 2020, and December 31, 2019, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	March 31, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)			
<b>Financial Assets:</b>				
Financial assets at amortized cost	<b>P99,265,812</b>	<b>P94,371,946</b>	P100,464,757	P101,580,817
Loans and receivables:				
Receivables from customers	<b>632,857,636</b>	<b>668,502,759</b>	636,950,500	695,304,130
Unquoted debt securities	–	–	P737,415,257	P796,884,947
	<b>P732,123,448</b>	<b>P762,874,705</b>	P100,464,757	P101,580,817
<b>Financial Liabilities:</b>				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	<b>P178,772,670</b>	<b>P178,831,246</b>	P226,894,643	P226,525,853
Bills payables	<b>41,808,269</b>	<b>43,277,670</b>	53,270,956	56,049,095
Long term debts:				
Subordinated debt	<b>3,497,797</b>	<b>3,551,484</b>	3,497,797	3,551,484
Unsecured term loan	<b>920,988</b>	<b>809,270</b>	2,334,259	2,051,108
Bonds payable	<b>66,695,175</b>	<b>66,940,626</b>	66,615,078	69,640,930
LTNCD	<b>35,163,737</b>	<b>34,589,279</b>	35,152,104	35,311,473
Other liabilities:				
Payable to landowners	<b>2,004,181</b>	<b>2,004,181</b>	1,828,949	1,828,949
Tenants' rental deposits	<b>463,433</b>	<b>464,433</b>	560,992	560,992
	<b>P329,326,250</b>	<b>P330,468,189</b>	P390,154,778	P395,519,884

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are obtained from independent parties offering pricing services, estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - fair values of quoted equity securities are based on quoted market prices. While fair values of unquoted equity securities are the same as the carrying value since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - For loans with fixed interest rates, fair values are estimated by discounted cash flow methodology, using the Group's current market lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value

Liabilities - Except for time deposit liabilities, subordinated debt, bonds payable, unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities and subordinated debt including designated at FVPL - 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 4.13% as of

March 31, 2020 and December 31, 2019, respectively.

Unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals - Fair values are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 2.36% to 4.73% as of March 31, 2020 and December 31, 2019, respectively.

Bonds payable - Fair value is determined by reference to latest transaction price at the end of reporting period.

*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.

---

## **32. 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 shareholder's equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants as of March 31, 2020 and December 31, 2019.

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 changes were made in the objectives, policies or processes as of March 31, 2020 and December 31, 2019.

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:

	<b>March 31, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
	<i>(In Thousands, except ratios)</i>	
Total liabilities	<b>₱965,188,794</b>	₱1,011,822,982
Total equity	<b>249,988,785</b>	254,007,571
Total liabilities and equity	<b>₱1,215,177,579</b>	₱1,265,830,553
Debt ratio	<b>0.79:1</b>	0.80:1
Debt-to-equity ratio	<b>3.86:1</b>	3.98:1

### 33. Commitments and Contingencies

There were no changes in the Group's commitments and contingencies from those disclosed in the December 31, 2019 annual consolidated financial statements.

### 34. Seasonality of Interim Operations

The sales of the beverage segment are affected by the weather, generally being higher in the hot, dry months from March through June and lower during the wetter monsoon months or July through October. Beverage products also tend to experience a period of higher sales around the Christmas and New Year holiday period in late December through early January. The beverage segment adjusts its production levels to reflect its historical experience of seasonal varieties. In addition, the Philippines is at risk from typhoons during the monsoon period. Typhoons usually result in substantially reduced sales in the affected area, and have, in the past, interrupted production at the beverage segment's plants in affected areas. While these factors lead to a natural seasonality in our sales, unreasonable weather could also significantly affect sales and profitability compared to previous comparable periods.

Demand for rum, spirit beverages and liquor products are not significantly influenced by seasons of the year. The increase in peso sales was due to increase in selling price during the period. The seasonality does not significantly influence production and inventory levels are adjusted for these movements in demands. Seasonality does not impact the revenue or cost recognition policies of the Group.

This information is provided to allow for a proper appreciation of the results, however management have concluded that this does not constitute "highly seasonal" as considered by PAS 34, *Interim Financial Reporting*.

There are no seasonal aspects that had a material effect on the financial position or condition and results of operations of the distilled spirits and tobacco segments.

---

**35. Events After the Reporting Date**

There are no subsequent events after the reporting date that will significantly affect the interim consolidated financial statements.

---

**36. The Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income, or Cash Flows that are Unusual Because of their Nature, Size or Incidence**

There are no unusual items that will significantly affect the assets, liabilities, equity, net income or cash flows.

---

**37. The Nature and Amount of Changes in Estimates of Amounts Reported in Prior Interim Period of the Current Year or Changes in Estimates of Amounts Reported in Prior Years, if those Changes Have a Material Effect in the Current Interim Period**

There are no significant changes in estimated reported in prior interim periods of the current period or changes in estimated reported in prior years, which are considered to have material effect on the interim consolidated financial statements.



**LT GROUP, INC. AND SUBSIDIARIES**  
**SELECTED EXPLANATORY NOTES**

**As at March 31, 2020 and December 31, 2019**

**And for the Three Months Ended March 31, 2020 and 2019**

(As required under Par. 7 (d) Selected Explanatory Notes Required Under SRC Rule 68, as Amended 2011)

- i.) The Company's interim consolidated financial reports are in compliance with Generally Accepted Accounting Principles. The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

The Company's interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*, under the Philippine Financial Reporting Standards (PFRSs).

- ii.) Explanatory comments about the seasonality or cyclicity of interim operations;

Beverage Segment is affected by seasonality of operations.

The sales of the beverage segment are affected by the weather, generally being higher in the hot, dry months from March through June and lower during the wetter monsoon months or July through October. Beverage products also tend to experience a period of higher sales around the Christmas and New Year holiday period in late December through early January. The beverage segment adjusts its production levels to reflect its historical experience of seasonal varieties. In addition, the Philippines is at risk from typhoons during the monsoon period. Typhoons usually result in substantially reduced sales in the affected area, and have, in the past, interrupted production at the beverage segment's plants in affected areas. While these factors lead to a natural seasonality in our sales, unreasonable weather could also significantly affect sales and profitability compared to previous comparable periods. This information is provided to allow for a proper appreciation of the results, however management have concluded that this does not constitute "highly seasonal" as considered by PAS 34, *Interim Financial Reporting*. There are no seasonal aspects that had a material effect on the financial position or condition and results of operations of the distilled spirits, tobacco and banking segments.

- iii.) The nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that is unusual because of their nature, size, or incidents.

The material items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents are included in the Management discussion and analysis of the report.

- iv.) Nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period

Not Applicable. There were no changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.

- v.) Issuances, repurchases, and repayments of debt and equity securities.

There were no issuances, repurchases and repayments of debt and equity securities.

- vi.) Dividends paid (aggregate or per share) separately for ordinary shares and other shares.

None.

- vii.) Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment.

Please refer to Note 3 – Segment Information, in the interim consolidated financial statements.

- viii.) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;

None.

- ix.) The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations.

None.

- x.) Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

None. The Company has no contingent liabilities or assets.

- xi.) Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

**Banking**

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

**Beverage**

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of March 31, 2020, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

**Distilled Spirits**

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

### **Property Development**

#### **Kingston Tuscani, et al. vs. Paramount Holdings and Eton Properties**

The Company is one of the appellees in CA G.R. No. CV-106191 entitled “Kingston Tuscani Enterprise & Development Corporation, Cristeta Babaison, et al. vs. Paramount Holding Equities and Eton Properties Philippines, Inc.”

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

In its Answer, the defendants, including the Company raised the defense that the property was acquired through public bidding from the Land Bank of the Philippines where Paramount was the highest bidder at Php1.03 Billion and which sale was approved by the President of the Philippines then. Further, there is no adverse claim or notice of listeners, encumbrance, or annotation of any overlapping claim on the Company’s title. Based on an investigation conducted into the plaintiffs’ title, it appeared that the technical descriptions of TCT No. 300828 overlap several titled properties when plotted. It was also found by the NBI that plaintiff’s title was not regularly issued, and, upon further examination, the technical description overlaps other titled properties located in Aurora Boulevard, and Manga Street, among others, showing that the plaintiffs’ property was located elsewhere when plotted.

Additionally, defendants challenged the standing of the plaintiffs as not being the real parties in interest and subsequently requested the Court for a hearing on its affirmative defenses raised in its Motion to Dismiss. After due hearing, the Court, on December 14, 2014 issued a Resolution dismissing the complaint against the Company. The plaintiffs filed a Motion for reconsideration which was denied by the Court on October 13, 2015. Kingston filed a Notice of Appeal which was docketed as CA-G.R.-CV no. 106191. Paramount and Eton already filed their Appellees’ Brief on September 21, 2016.

Per the Resolution dated March 8, 2017 of the Court of Appeals, the case is deemed submitted for decision.

### **Tobacco**

#### **Sandiganbayan case against Tan Companies**

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

## **Annex “B”**

### **LT GROUP, INC. AND SUBSIDIARIES**

#### **Management Discussion and Analysis of Financial Condition and Results of Operations**

---

## **PART I - FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

The financial statements are filed as part of this Form 17-Q

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **RESULTS OF OPERATIONS**

LT Group, Inc. (LTG) recorded a consolidated net income of **₱6.8 billion** for the three months ended March 31, 2020, 28.9% higher than the **₱5.3 billion** reported for the same period last year.

The consolidated net income attributable to equity holders of LTG was **₱6.21 billion** for 1Q20, 40.5% more than 1Q19. This was on account of the better operating results of the tobacco and property development segments, which more than offset the lower net incomes of the banking, distilled spirits and beverage segments. The tobacco segment's net income increased by **₱2.2 billion** from **₱2.9 billion** in 2019 to **₱5.0 billion** in 2020. Property development segment's net income was **₱169 million**, 13.4% higher than the **₱149 million** in 1Q19. The banking segment's net income dipped 29.6% from **₱1.9 billion** for the first quarter ended March 31, 2019 to **₱1.4 billion** in the same period of 2020. Distilled spirits segment's net income was **₱199 million**, 15.0% lower than the **₱234 million** recognized for the period ended March 31, 2019. The beverage segment's net income of **₱74 million** in 1Q20 was lower by 9.8% compared to the reported income of **₱82 million** in the same period last year. Equity in net earnings from the 30.9% stake in VMC contributed **₱91 million**.

Consolidated revenues amounted to **₱25.2 billion** for the three months ended March 31, 2020, 15.0% higher than the **₱21.9 billion** recognized in 2019 on account of the increased revenues in the banking, distilled spirits and beverage segments.

Cost of sales and services slightly increased by 2.5% from **₱10.8 billion** for the three months ended March 31, 2019 to **₱11.0 billion** in the same period in 2020, primarily attributable to higher excise taxes on goods sold by the distilled spirits segment.

Operating expenses amounted to **₱12.3 billion** in 1Q20 from **₱8.5 billion** in 1Q19 or an increase of 44.9%. This was as a result of increased general and administrative expenses by 50.3%, from **₱7.8 billion** in 2019 to **₱11.7 billion** in 2020 and is mainly due to the additional provisions for impairment and credit losses for the anticipated impact of the Corona Virus Disease 2019 (COVID-19) pandemic to the bank's loan portfolio. Selling expenses slightly decreased to **₱0.6 billion** in 1Q20 from **₱0.7 billion** in 1Q19 as fewer advertising and related expenses were incurred.

#### **SEGMENT OPERATIONS**

##### **Tobacco**

The tobacco segment's net income was **₱5.0 billion** for the three months ended March 31, 2020, higher than the **₱2.9 billion** of the same period last year on account of the increase in equity in net earnings from PMFTC (FTC's 49.6% owned associate) from **₱2.7 billion** last year to **₱5.0 billion** in 2020.

## **Banking**

The banking segment's net income was ₱1.4 billion for the three months ended March 31, 2020, 29.6% lower than the ₱1.9 billion recorded for the same period in 2019 as the bank recognized significant provisions for impairment, credit and other losses of ₱3.4 billion. There was a substantial improvement in the bank's net interest income and net gains from trading and investment securities.

Interest income from banking operations was at ₱12.6 billion in 2020, 13.0% higher than the ₱11.1 billion earned last year, mainly due to the expansion in interest from loans, deposits with banks and others and trading and investment securities. Interest expense was at ₱3.7 billion for the three months ended March 31, 2020, down 7.3% from ₱4.0 billion in same period of 2019 due to declines in the interest expense from deposit liabilities and other borrowings. This resulted to a net interest income of ₱8.9 billion, 24.5% higher year-on-year.

Net service fees and commission income were flat at ₱1.0 billion in 1Q20 and 1Q19.

Trading and investment securities and net foreign exchange gains were higher at ₱2.21 billion in 1Q20 compared to 1Q19's ₱857 million.

Operating expenses increased by 54.8% mainly due to additional provisions for impairment, credit and other losses amounting to ₱3.4 billion for 1Q20 in anticipation of the impact of the COVID-19 pandemic to the bank's loan portfolio compared to ₱346 million that was provided for 1Q19.

## **Distilled Spirits**

The distilled spirits segment posted a net income of ₱199 million for the three months ended March 31, 2020, a 15.0% decrease from the net income of ₱234 million reported in the same period last year.

Net revenues were higher by 7.1% y-o-y to ₱5.1 billion in 1Q20 mainly due to higher pricing despite the decline in the sales volume of liquor and bioethanol.

Cost of sales increased by 9.4% to ₱4.3 billion in the current period as against ₱3.9 billion in the same period last year primarily due to higher excise taxes. Gross profit margin was at 15.5% in 1Q20 lower than the 17.3% in 1Q19.

Operating expenses were flat at ₱0.5 billion in 1Q20 and 1Q19.

## **Property Development**

The property development segment reported a net income of ₱169 million for the first three months of 2020, 13.4% higher than the ₱149 million for the same period last year.

Rental revenue for the first three months of 2020 accounted for ₱470 million or 76.9% of revenues, representing a 17.5% growth over the same period in 2019, as lease contracts were renewed at higher rates for the BPO offices. On the other hand, real estate sales were 42.7% lower y-o-y to ₱141 million.

Operating expenses were higher by 14.2% from ₱211 million in 1Q19 to ₱241 million in 1Q20.

## **Beverage**

The beverage segment's net income was lower by 9.8% to ₱74 million for the three months ended March 31, 2020 from ₱82 million in the same period last year. Net income was lower due to increase in equitized loss in a joint venture.

Revenues of the beverage segment were flat at ₱3.9 billion in 1Q20 and 1Q19. Overall gross profit margin improved to 28.5% from 27.9% as a result of favorable product mix and pricing.

Operating expenses decreased by 8.0% to ₱0.6 billion in 2020 from ₱0.7 billion in 2019 on account of lower advertising and promotional expenses.

## **FINANCIAL CONDITION**

The Company's consolidated Total Assets as of March 31, 2020 and December 31, 2019 amounted to ₱1.2 trillion and ₱1.3 trillion, respectively. Current Assets increased by 8.7% or ₱45.8 billion and Noncurrent Assets were lower by ₱96.4 billion or 13.1%.

The consolidated Current Assets increased by 8.7% from ₱527.1 billion as of December 31, 2019 to ₱572.9 billion. Cash and Cash Equivalents increased level from ₱184.9 billion as of end-2019 to ₱201.2 billion as of March 31, 2020 on account of higher Due from Other banks, Interbank Loans Receivables and Securities Held Under Agreement to Resell of the banking segment. Financial Assets at Fair Value through Profit or Loss increased due to acquisitions during the year and increase in the fair values of the portfolio. Current portion of Loans and Receivables was greater than end-2019 level by 3.9% at ₱271.1 billion as the banking segment reclassified collectible loans in the current period. Financial Assets at Amortized Cost-current increased due to reclassification of currently maturing investments. Inventories as of March 31, 2020 amounted to ₱12.9 billion, 6.1% higher than end-2019 due to higher ending inventory levels of the distilled spirits segment. Other Current Assets amounted to ₱12.9 billion as of March 31, 2020, 13.4% increase from ₱11.4 billion as of December 31, 2019. Financial Assets at Fair Value through Other Comprehensive income decreased due to disposal of various securities, net of purchases.

The 13.1% decrease in consolidated Noncurrent Assets was mainly due to the movements in the Noncurrent portion of Loans and Receivables, Financial Assets at FVTOCI and Financial Assets at Amortized Cost. Noncurrent portion of Loans and Receivables were lower by ₱16.4 billion due to the net paydowns of loans and receivables and higher provision for impairment, credit and other losses. Financial Assets at FVTOCI and Financial Assets at Amortized Cost were lower by ₱70.3 billion and ₱10.8 billion, respectively on account of disposal of various investment securities, net of purchases made as of March 31, 2020. Deferred income tax assets (DTA) were higher by ₱0.6 billion, from ₱2.4 billion as of end-2019 to ₱3.0 billion as of March 31, 2020 as additional DTA was recognized on allowance for expected credit losses, for which the bank has the benefit of tax deductions against future taxable income only upon actual write-offs.

Consolidated Total Liabilities decreased by 4.6% to ₱965 billion as of March 31, 2020 from ₱1.0 trillion as of December 31, 2019. This was on account of the decrease in Total Current Liabilities by 6.7% from ₱876.7 billion in December 31, 2019 to ₱817.9 billion as of the end of the current period and increase in Noncurrent Liabilities of 9.0% from ₱135.2 billion to ₱147.3 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱741.3 billion as of March 31, 2020, 4.0% lower than end-2019 balance. Current portion of Bills and Acceptances Payable decreased by 41.3% due to settlement of interbank loans from the BSP and local banks. Other current liabilities decreased from ₱18.8 billion as of end-2019 to ₱14.2 billion in current period due to

settlements made as of March 31, 2020. Short-term debts as of March 31, 2020 amounted to ₱2.8 billion, 45.8% lower than end-2019 on account of payments made by the parent company. Current portion of long-term debts outstanding of ₱1.0 billion as of December 31, 2019 decreased to ₱0.9 billion as of March 31, 2020 due to payments made by the property development segment. Income tax payable was higher by 69.2% versus the December 31, 2019 level due to the income tax provisions made in the current period.

The increase in the Noncurrent Liabilities was on account of the higher Bills and Acceptances Payable net of current portion by ₱10.8 billion as of March 31, 2020, as the bank reclassified some from current to noncurrent portion. Other Noncurrent liabilities increased by 95.3% to ₱6.1 billion as of March 31, 2020 from ₱3.1 billion due to various accruals in 2020.

LTG's consolidated Total Equity declined by 1.6% to ₱250.0 billion as of March 31, 2020, on account of the decrease in the other comprehensive income from the unrealized gain in fair value of investments and additional payment of Preferred shares of subsidiaries issued to Parent company amounting to ₱4.7 billion. This was partially offset by the increase in the retained earnings brought about by the income earned for the period ended March 31, 2020 of ₱6.2 billion.

**LTG's top five (5) key performance indicators are described as follows:**

**1.) Revenues**

Revenues for the period ended March 31, 2020 amounted to ₱25.2 billion, 15.1% higher from last year's ₱21.9 billion.

**2.) Net Income**

Consolidated Net Income for the three months ended March 31, 2020 and 2019 amounted to ₱6.8 billion and ₱5.3 billion, respectively.

**3.) Current Ratio**

Current ratio was 0.60:1 as of December 31, 2019 and 0.70:1 as of March 31, 2020.

**4.) Debt to Equity Ratio**

Debt-to-equity ratio decreased from 3.98:1 in December 31, 2019 to 3.86:1 as of March 31, 2020.

**5.) Earnings/ (Loss) Per Share**

LTG's earnings per share attributable to holders of the parent company for the three months ended March 31, 2020 and 2019 were ₱0.57 and ₱0.41, respectively.

The manner by which the Company calculates the above indicator is as follows:

Debt to equity ratio = Total Liabilities / Total Equity

Current ratio = Current assets / Current Liabilities

Earnings per share = Net Income attributable to holders of parent company / Common shares outstanding



Trends, Uncertainties or Contingencies That Will Affect Liquidity in the Next Twelve Months:

- (i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.
- (ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.
- (iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period.
- (iv) The Group has capital expenditures for the regular replacements and upkeep of its assets.
- (v) The Company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.
- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical analyses (V) showed the following material changes:

- 1. Cash and cash equivalents – H, 9%
- 2. Financial assets at fair value through profit or loss - current – H, 80%
- 3. Financial assets at FVTOCI - current – H, (20%)
- 4. Financial assets at amortized cost – current – H, 38%
- 5. Inventories – H, 6%
- 6. Other current assets – H, 13%
- 7. Financial assets at FVTOCI - noncurrent – V, (5%); H, (64%)
- 8. Financial assets at amortized cost - noncurrent – H, (14%)
- 9. Deferred income tax assets – H, 24%
- 10. Financial liabilities at fair value through profit or loss – current – H, 44%
- 11. Bills and acceptances payable - current – H, (41%)
- 12. Short-term debts – H, (46%)
- 13. Income tax payable- H, 69%
- 14. Current portion of long-term debts – H, (13%)
- 15. Other current liabilities – H, (24%)
- 16. Bills and acceptances payable – noncurrent – H, 262%
- 17. Other noncurrent liabilities – H, 95%
- 18. Preferred shares of subsidiary issued to Parent Company – H, 49%
- 19. Other comprehensive income – H, (39%)
- 20. Retained earnings – H, 6%
- 21. Banking revenue – H, 23%
- 22. Distilled spirits revenue – H, 7%
- 23. Property development revenue – H, (5%)

- 24. Cost of sales and services – V, (5%)
- 25. Equity in net earnings of associates and joint ventures – V, 8%; H, 93%
- 26. Selling expenses – H, (16%)
- 27. General and administrative expenses – V, 11%; H, 50%
- 28. Finance cost – H, 59%
- 29. Finance income – H, (89%)
- 30. Foreign exchange gains – H, (13%)
- 31. Others-net – H, (19%)
- 32. Provision for income tax – current – H, 42%
- 33. Provision for income tax – deferred – H, 1,681%
- 34. Total net income – H, 29%
- 35. Net income attributable to equity holders of the company – H, 41%
- 36. Net income attributable to noncontrolling interests – H, (29%)

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

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

**LT GROUP, INC. and SUBSIDIARIES**  
**AGING OF LOANS AND RECEIVABLE**  
**As of March 31, 2020 (Unaudited)**  
(In thousands)

TYPE OF ACCOUNTS RECEIVABLE		TOTAL	up to 12 months	1 year to 3 years	Over 3 years to 5 years	Over 5 years	Past due and items in litigation
(a) Finance Receivable		670,912,767	252,260,854	74,110,754	110,683,208	208,684,526	25,173,425
Less: Unearned interest and other deferred income		870,017	-	-	-	870,017	-
Less: Allowance for credit losses		23,548,246	-	-	-	-	23,548,246
NET FINANCE RECEIVABLES	P	646,494,504	252,260,854	74,110,754	110,683,208	207,814,509	1,625,179
(b) Trade Receivables		16,546,840	15,584,853	-	-	-	961,987
Less: Allowance for credit losses		388,887	-	-	-	-	388,887
NET TRADE RECEIVABLES	P	16,157,953	15,584,853	-	-	-	573,100
(c) Other Receivables		3,312,347	3,301,107	-	-	-	11,240
Less: Allowance for credit losses		11,240	-	-	-	-	11,240
NET OTHER RECEIVABLES		3,301,107	3,301,107	-	-	-	-
<b>NET LOANS AND RECEIVABLES</b>	P	665,953,564	271,146,814	74,110,754	110,683,208	207,814,509	2,198,279

LOANS AND RECEIVABLE DESCRIPTION	NATURE OF DESCRIPTION	COLLECTION PERIOD
Finance Receivables	Pertain to receivables of the banking segment (see note 7)	less than 1 year to over 5 years
Trade Receivables	Sale of liquor, beer products, beverages and cigarettes, lease contract receivables	30 to 120 days
Other Receivables	Downpayment on various suppliers, officers and employees and other receivables	-

**LT GROUP, INC. and Subsidiaries**  
**FINANCIAL SOUNDNESS INDICATORS**

<b>Ratio</b>	<b>Formula</b>	<b>3/31/2020</b>	<b>12/31/2019</b>
<b>Current ratio</b>	Current Assets / Current Liabilities	0.70	0.60
<b>Acid test ratio</b>	(Current Assets – Inventories – Prepaid Expenses) / Current Liabilities	0.68	0.59
<b>Solvency ratios</b>	(Net income after tax + Depreciation) / (Short term debt + Long-term Debt)	0.11	0.41
<b>Debt-to-equity ratio</b>	(Short term debt + Long-term Debt) / Equity attributable to equity holders of the Parent Company	0.41	0.42
<b>Asset-to-equity ratio</b>	Total Assets / Total Equity	4.86	4.98
		<b>3/31/2020</b>	<b>3/31/2019</b>
<b>Interest rate coverage ratio</b>	EBITDA / Interest expense	89.03	116.24
<b>Return on equity</b>	Net income attributable to equity holders of the Company / Equity attributable to equity holders of the Parent Company	0.137	0.098
<b>Return on asset</b>	Net income attributable to equity holders of the Parent Company / Total Assets	0.020	0.015
<b>Net profit margin</b>	Net income attributable to equity holders of the Parent Company / Revenues	0.25	0.20