BANNER YEAR

2019 ANNUAL REPORT

Vision

To be a world-class conglomerate at the forefront of Philippine economic growth, successfully maintaining a strong presence and dominant position in key Philippine industries while ensuring continuous benefits to its consumers, communities, employees, business partners, and shareholders.

Contents

Mission

Anchored to its Vision, the LT Group commits:

- To increase stockholder values through long-term growth in its major business groups.
- To continuously improve the value of its products and services and to provide consumers with more and better choices.
- To build the largest, most effective distribution network and widest customer reach in the Philippines.
- To leverage on synergies between its various businesses to continuously improve revenues and cost structure.
- To enhance the welfare of its employees and the communities where it lives and works.

(The Vision and Mission Statements are reviewed and approved annually by the Board of Directors. The latest reviews were on January 15, 2019 and January 17, 2020.)

LT Group, Inc. Logo

Strength and solidarity. This is the essence of the LT Group, Inc. (LTG) logo. The clean balanced lines and curves are central elements – a mystical symmetrical tree. Drawn in an Eastern-Oriental style, it gives hint to the Company's Chinese heritage.

Tree is life. Life is growth. Like a tree, a company with firm roots, properly nurtured, will continuously grow and give value.

The tree's trunk is upright, and the branches spread out – a symbolic consolidation of the subsidiaries and stakeholders within two circles, one for continuity, the other one for solidarity.

About the Cover

The cover reflects a hard-earned celebration as LT Group, Inc. (LTG) saw a banner year with record profits for 2019. Just as a mountaineer devotes rigorous effort and dedication to reach the peak of a mountain, LTG has tirelessly worked to achieve the heights it has achieved today. The climb is not without challenges as the Group came across a more competitive environment—but this has only made the success sweeter.

To showcase the Group's component companies, their prominent products are shown on the line chart that reflects the path and trajectory of LTG's annual attributable net income.

Banner year for LT Group, Inc.

Seven years ago, Dr. Lucio C. Tan formed LT Group, Inc., a conglomerate with diversified interests in banking, beverages, alcohol and distillery, tobacco and property development.

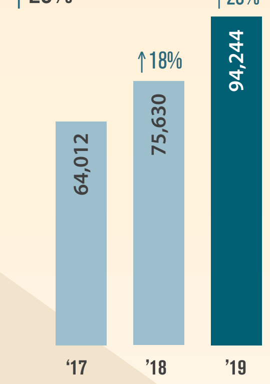
Their mission: provide the best products and services to the Filipino consumer.

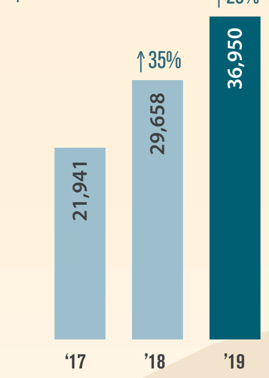
Today, LT Group, Inc. is stronger than ever. As a reward for years of hard work and the pursuit of excellence, the company ends 2019 with its best financial performance on record. A banner year indeed!

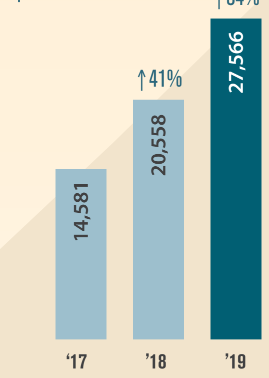
LT GROUP, INC.

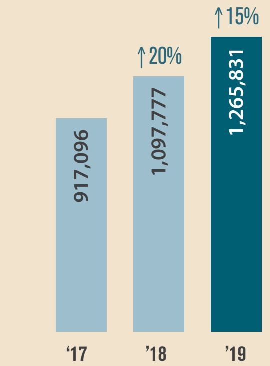
ASIA BREWERY, INC. ▪ ETON PROPERTIES PHILIPPINES, INC. ▪ PMFTC INC.
PHILIPPINE NATIONAL BANK ▪ TANDUAY DISTILLERS, INC.

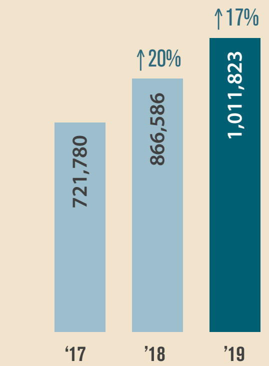
FINANCIAL SUMMARY

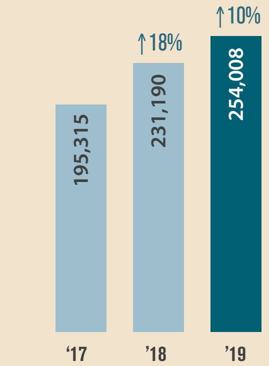












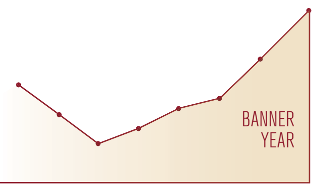
PER SHARE DATA
in Php, except Pay-out Rate

	2017	2018	2019
Earnings per Share	1.00	1.50	2.14
Book Value (at year end)	13.71	15.98	17.27
Cash Dividend	0.18	0.20	0.30
Pay-out Rate	20.74%	19.98%	20.04%

RATIOS

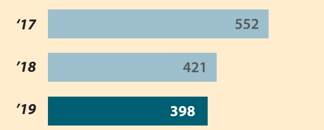
	2017	2018	2019
Current Ratio	0.62	0.61	0.60
Current Ratio (without PNB)	4.39	4.03	2.31
Debt to Equity Ratio	3.70	3.75	3.98
Debt to Equity Ratio (without PNB)	0.15	0.14	0.17
Return on Average Assets	1.2%	1.6%	1.6%
Return on Average Equity	7.6%	10.1%	10.1%

OUR BUSINESSES AT A GLANCE



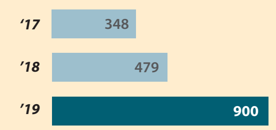
Asia Brewery, Inc. started as a brewery in 1982. It offers non-alcoholic beverages as well as packaging materials. It is a market leader in the energy drinks and soymilk categories. It is ranked second in the bottled water segment. Its alcoholic beverages, namely beer and alcopop, were spun off into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

99.9%
Ownership



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

99.6%
Ownership



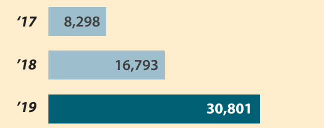
Philippine National Bank is one of the largest private universal banks in the country.

56.47%
Ownership

Note: Pooling Method

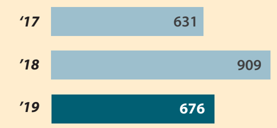
PMFTC Inc. is the business combination of Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corporation. It is the leading cigarette manufacturer in the Philippines.

49.6%
Ownership



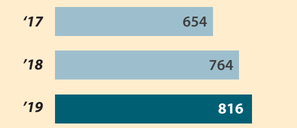
Tanduay Distillers, Inc. has a 99% market share of rum in the Philippines and 28.8% market share of the distilled spirits industry in 2019. It is the world's number one rum in terms of volume. In 2016, Tanduay started selling bioethanol to fuel companies.

100.0%
Ownership



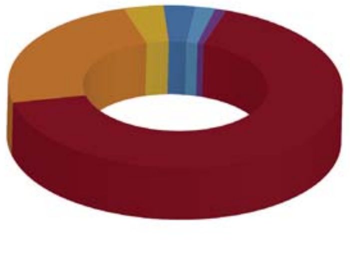
Victorias Milling Company, Inc. is one of the country's largest sugar refineries, based in Negros Occidental. In crop year 2018-2019, it milled 2.7 million tons of cane.

30.9%
Ownership



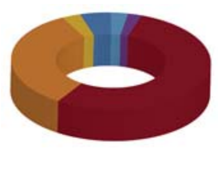
Note: For crop year September 2018 to August 2019

Attributable Net Income Contribution to LTG
in Php Millions

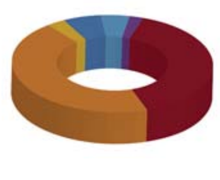


2019		% to total
Tobacco	15,499	67%
Banking	5,565	24%
Property Development	896	4%
Distilled Spirits	667	3%
Beverage	398	2%
VMC	251	1%
Others	(-158)	-1%
Total	**23,118**	**100%**

Note: Banking attributable to LTG, net of inter-company transactions



2018		% to total
Tobacco	8,716	54%
Banking	5,468	33%
Property Development	479	3%
Distilled Spirits	890	5%
Beverage	421	3%
VMC	247	2%
Others	(-26)	0%
Total	**16,195**	**100%**



2017		% to total
Tobacco	4,385	40%
Banking	4,826	45%
Property Development	348	3%
Distilled Spirits	631	6%
Beverage	551	5%
VMC	174	2%
Others	(-84)	-1%
Total	**10,831**	**100%**

OUR PARTNERSHIPS

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

Currently, the Company imports yogurt from Spain and distributes it in the Philippine market under the Pascual Creamy Delight Brand. Different variants cater to a wide array of customers, from Original, Non-fat, Thick and Creamy to Greek Style. As of end 2019, Pascual Yogurt has a market share of 36%, based on AC Nielsen estimates and internal data.

The continuous success of Pascual Yogurt has paved the way for a new product launch of yet another revolutionary product- Bifrutas. It is the first Milk and Juice product that is low in sugar in the Philippine market.

2019 proved to be the start for AB Pascual Holdings Pte. Ltd. in building a robust dairy portfolio that offers high quality, healthy and affordable products for Filipinos.

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

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

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

ALI-Eton Development Corporation

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

The project, called Parklinks is envisioned to be the greenest urban estate in Metro Manila, with 50% of the area devoted to open spaces. A 110-meter long iconic bridge will link Pasig and Quezon City over the Marikina River, creating a new route to help ease vehicular traffic in the northeast and east of Metro Manila. The ground breaking ceremony was held in January 2018, while the bridge began construction in 2019 and targeted for completion in 2021.

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

Brisk residential sales of Parklinks North Tower paved the way for the launching of its second tower in 2019. Also launched was "The Lattice".

The Parklinks lifestyle mall that broke ground in December 2018, is expected to open in 2023. There will be 12,000 square meters of office space stacked on top of the mall.

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

With a diverse product portfolio, Allianz PNB Life offers insurance and investment solutions for young and growing, and middle established families; high net-worth individuals, as well as millennials. These products are made available to PNB customers by Financial Advisors stationed in PNB branches. This comprehensive portfolio addresses PNB's customer needs, particularly saving for the future and growing their money.

On the back of Filipinos' rising incomes, the Company offers AZpire, a regular pay unit-linked life insurance plan which focuses on faster fund accumulation for investment needs. The product series is aimed at millennials, most of whom are in the early stages of building their professional careers and starting their own families. It is geared towards providing the best returns to customers' investments.

In conjunction with saving for the future, Allianz's offering for the health space is an international health product: Allianz Well! This health plan is meant to redefine the insurer's role from simply being an insurance payer to being an engaged provider with value-added wellness and lifestyle services and benefits.

While its bancassurance partnership with PNB remains to be the main business, Allianz PNB Life has also strengthened its reach to a wider customer base. The Company has already on-boarded more than 1,600 agents, enhancing its agency sales channel in Luzon, Visayas, and Mindanao. This will ensure that the Company can reach and secure the futures of more Filipino families nationwide.

The Company has embarked on strengthening its digital capabilities meant to provide better customer and distributor experience through e-applications, e-policies, e-notices, and e-learning. This digitalization aims to make the services more streamlined and efficient while also promoting a paperless and more sustainable organization.

Outside the business, and in contribution to being the most sustainable insurer for three years running based on the Dow Jones Sustainability Index, Allianz PNB Life has increased its sustainability focus in the country. The Company embarked on a tree-planting activity in partnership with Mr. Lucio Tan III's Green Canopy Project, which aims to plant a million trees across the archipelago. It also partnered with eSakay by sponsoring ejeepneys, which are public utility electric vehicles that spew far fewer emissions than standard gasoline or diesel-powered ones. The Company has also adopted 10 hectares of mangrove wetlands in the E.B. Magalona district of Negros Occidental. Other sustainability activities—this time putting emphasis on social inclusion—are the sponsorship of the Philippine para-OCR team, the Philippine Cerebral Palsy football team, as well as the Aetas of Porac, Pampanga. Allianz PNB Life also continues its advocacy to promote grassroots football and futsal in the country through the Allianz National Youth Futsal Invitational.

PMFTC Inc. (PMFTC) is the business combination between Philip Morris Philippines Manufacturing Inc. and Fortune Tobacco Corporation, a 99.6%-owned subsidiary of LT Group, Inc. It continues to be the leading cigarette manufacturer in the Philippines, with a market share of 70.5% in 2019. PMFTC manufactures 7 out of the top 10 brands available in the market today led by Marlboro, the world's number one cigarette brand, and Fortune, the largest heritage home-grown brand in the Philippines.

PMFTC continued the Promote Learning Activities for the Youth program (PLAY), which focuses on child labor elimination on tobacco fields by providing off-farm activities for children and skills training for adolescents. The program, in collaboration with Universal Leaf Philippines Inc. and the Jaime V. Ongpin Foundation, Inc. welcomed over 3,300 children from 36 barangays of Ilocos Sur, La Union, and Abra, and 20 schools in Isabela and Cagayan.

Dear Fellow Shareholders

"Our record-breaking accomplishment reflects the hard work across our operations. Just a few years back, it was hard to imagine that we could bounce back…" - Dr. Lucio C. Tan

LT Group, Inc. (LTG) concluded 2019 with a strong financial position. At the end of our fiscal year, we posted a net income of Php23.1 billion – 43% higher than 2018. By far, this is our highest recorded income since our public listing seven years ago in 2013.

Two-thirds or 67 percent of our 2019 income came from tobacco. At Php15.5 billion, our tobacco income share from PMFTC is 78% higher than the previous year. It's also worth noting that Philippine National Bank accounted for a quarter or 24 percent of our income. This is 2 percent higher than 2018.

Our record-breaking accomplishment reflects the hard work across our operations. Just a few years back, it was hard to imagine that we could bounce back from the longest and deepest downturn in our Company's history due to illicit tobacco trade.

It is incredible how we fought, adapted and stayed the course to emerge a much stronger company. For making LTG's **Banner Year** possible, our shareholders, management and staff deserve much praise and gratitude.

Although strong operating results and record financial performance are crucial yardsticks of our Company's health, it is equally important to share the fruits of our labor. Through our different foundations, we conceptualized and supported sustainable philanthropic efforts. We continue to make good progress on our sustainability goals detailed in this report.

While we have much to thank for, we also end 2019 on a sad note. The untimely passing of my son and our Director Lucio 'Bong' K. Tan, Jr., casts a pall over my family and the entire Lucio Tan Group. We thank you for your prayers and for sharing our grief. To honor Bong's memory, we pledge to continue his legacy and good works.

Moving forward, I believe our collective commitment to innovation, sustainability and productivity will drive our business to greater heights in 2020 and beyond.

On behalf of our Board of Directors, the management team and our hardworking employees, I want to express my sincere appreciation to all our shareholders. With your continuing trust, I'm confident that we can surpass our 2019 Banner Year in the years ahead.

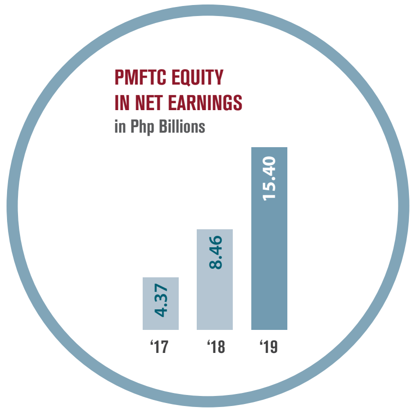
DR. LUCIO C. TAN
Chairman and Chief Executive Officer

MESSAGE FROM THE PRESIDENT

The Philippine economy continued its expansion in 2019 with Gross Domestic Product (GDP) growing by 5.9%. However, this was lower than 2018's 6.2% growth, largely due to the late approval of the General Appropriations Act which saw delays in the implementation of the Government's infrastructure projects.

Inflation was lower at 2.5% from 2018's 5.2%, brought about mainly by lower rice prices. This enabled consumer spending to remain healthy, with Household Consumption and Expenditure increasing by 5.8% and accounted for 68.4% of GDP. Remittances sent by Overseas Filipino Workers (OFWs) to their families in the Philippines increased by 3.9% to USD33.5 billion, while the number of employees of the Information Technology-Business Process Outsourcing (IT-BPO) industry expanded by around 6% to 1.3 million and revenues reached USD26.3 billion.

For LTG, 2019 was a **banner year**. Our attributable net income reached Php23.12 billion, Php6.93 billion or 43% higher than the Php16.19 billion we reported in 2018. This is the second year that earnings have reached all-time highs, and the fifth consecutive year of continuous growth.



PMFTC continues to account for the bulk of our earnings

On July 25, 2019, President Duterte signed Republic Act (RA) 11346 which increased further the excise tax on tobacco starting January 2020.

"For LTG, 2019 was a banner year… This is the second year that earnings have reached all-time highs, and the fifth consecutive year of continuous growth."

From Php35 per pack in 2019, it increased to Php45 per pack in 2020, increasing by Php5 per pack annually from 2021 to 2023, then increasing by 5% annually thereafter.

LTG is not against tax increases, but believes that the hikes should be moderate. Continual price increases to pass on higher excise taxes may result in further volume drops. The industry's volume was estimated at 108.9 billion sticks in 2012 and declined by 35% to an estimated 70.5 billion sticks in 2019. The industry is estimated to have declined by 4% in 2019. From a low of Php2.72 per pack of 20 sticks in 2012 for the lower tier and Php12 per pack for the upper tier, the excise tax was at Php35 per pack in 2019, and increased to Php45 per pack starting 2020.

The Government has kept the illicit trade under control by conducting more raids. In 2019, there were 116 enforcements, 53% more than 2018's 76 enforcements, with twelve illegal factories raided (vs. seven in 2018), and 47 machines seized with a capacity of producing 30 million sticks per day.

LTG's tobacco business reported a net income of Php15.56 billion in 2019, Php6.81 billion or 78% more than the Php8.75 billion reported in 2018. Equity in net earnings from LTG's 49.6% stake in PMFTC was Php15.40 billion, Php6.93 billion or 82% more than 2018's Php8.46 billion. The higher income is attributed to the higher share of premium Marlboro as well as the price increases implemented in late August 2019. Volume declined by 3% in 2019.

14.1%
Tier 1 ratio
consolidated

Philippine National Bank (PNB) recapitalized

PNB had a Php12 billion stock rights offering in July, and LTG participated to the extent of its ownership, for Php7.178 billion. The higher capital will enable the bank to further grow and cushion somehow the impact of non-performing loans (NPLs) with the expected downturn in the economy in 2020 brought about by the COVID-19 pandemic.

PNB's net income under the pooling method was Php9.94 billion for 2019, 2% more than the Php9.78 billion reported for 2018. Both periods included gains from the sale of Real and Other Properties Acquired (ROPA), at Php425 million, net of taxes, in 2019 and Php3.85 billion in 2018. Excluding the ROPA gains, the Bank's core income was at Php9.51 billion in 2019, 61% higher compared to 2018's Php5.92 billion.

Net Interest Income was 20% higher as loans and receivables grew by 12% year-on-year, as well as an increase in its investment portfolio while Net Interest Margin slightly improved. Net Service Fees and Commission Income grew 20% and Trading and Foreign Exchange Gains were 98% higher.

Eton Properties Philippines, Inc.'s (Eton) leasing revenues continue to grow

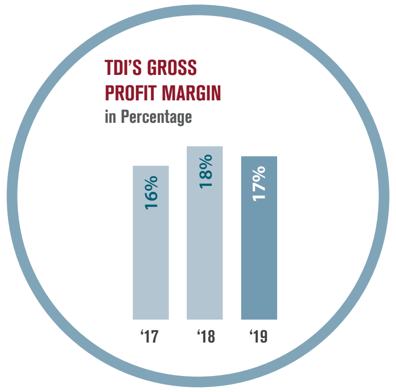
Eton's net income for 2019 was at Php900 million, 88% more than 2018's Php479 million.

Eton continued to expand its leasing portfolio with the opening of Eton WestEnd Square in Makati City during the second quarter of 2019. Its retail component, eWestMall, has two floors of retail spaces with a total leasable area of approximately 3,600 square meters. The office component, eWestPod, has over 13,000 square meters of office space.

At the end of 2019, Eton had a leasing portfolio of approximately 181,000 square meters of office space and over 43,500 square meters of retail space. Construction is ongoing in a number of projects to increase further the leasing portfolio.

Tanduay Distillers, Inc.'s (TDI) higher revenues affected by higher alcohol costs that saw margins decline

TDI's net income for 2019 was Php676 million, Php233 million or 26% lower than 2018. The lower income was due to lower margins from higher alcohol costs and higher interest expenses.

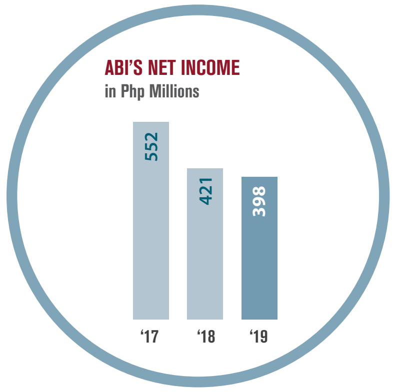


Total revenues were Php19.28 billion, 6% more than 2018. Revenues from liquor were 3% higher with the 2% increase in volume and an average Php14 per case increase in selling prices to pass on the higher excise taxes. Revenues from bioethanol were 30% higher as volume increased by 18% and selling prices by 12%.

As of end-2019, TDI's nationwide market share for distilled spirits was at 27.8%, slightly lower than end-2018's 29.0%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 64.2% and 73.1%, respectively, as of December 2019, compared to 64.7% and 72.6%, respectively, as of December 2018.

Asia Brewery, Inc.'s (ABI) Cobra recovers from sugar tax; bottled water and soymilk continue to grow.

The imposition of the sugar tax starting 2018 adversely affected the sales volume of Cobra due to the price increase to pass it on, exacerbated by higher rice prices which affected the target market's purchasing power. In 2019, Cobra's sales volume was able to recover, but is still lower than the 2017 level. Meanwhile, the sales volume growth of Absolute and Summit bottled water and Vitamilk soymilk continue to be strong. Our new bottled water plant in Pampanga started operating in May 2019.



ABI's earnings for 2019 was Php398 million, 5% lower than 2018 due to higher selling expenses on advertising and promotions, despite the 6% growth in revenues. Our equitized share in a joint venture continues to be a drag to our earnings as well.

Cobra energy drink remains the market leader with a 72% market share. Our bottled water brands have the second largest market share at 25%, while Vitamilk has 77%.

Guarded Outlook for 2020 due to COVID-19

With the Coronavirus Disease 2019 (COVID-19) pandemic, we have a guarded outlook for 2020. The strong results we had for 2019 gives a strong foundation for our Group, and will hopefully help us weather this pandemic.

Since the Government ordered an Enhanced Community Quarantine (ECQ) in Metro Manila and the island of Luzon starting March 17, 2020, followed by other areas around the country, many industries have been disrupted, many people have lost their livelihood and jobs, while businesses are struggling to keep afloat. Moreover, thousands of OFWs have gone back to the Philippines as their host countries and employers also feel the impact of the pandemic.

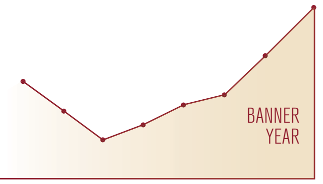
The Government estimates that the economy will contract by 2% in 2020, but some economists expect a higher deceleration of 10-20%. With purchasing power affected, demand for consumer goods is expected to be weak, and will affect the sales volumes of the products of PMFTC, TDI and ABI. Eton will also be affected as some tenants may end their lease contracts while demand for residential units will be weak. PNB will have to grapple with NPLs and slower demand for loans.

Even as the economy is restarted under different permutations of the quarantine thereafter, it will take a while before our economy goes back to the normal, or to what it used to be. The key to a faster recovery would be the availability of a vaccine, which we hope will be sooner than later.

To conclude, I would like to thank our stakeholders for the continued support and trust in our Company. To our Board of Directors, management team and employees, thank you for your dedication, commitment and hard work. Thank you for being with us through good and difficult times.

MICHAEL G. TAN
President and Chief Operating Officer

MESSAGE FROM THE CFO



"The 2019 attributable net income of LTG reached Php23.12 billion, Php6.93 billion or 42.8% higher than 2018's Php16.19 billion."

For the year 2019, LT Group, Inc.'s (LTG) total revenues amounted to Php94.24 billion, an increase of Php18.61 billion or 24.6% over 2018's Php75.63 billion in revenues. Banking, beverages and distilled spirits segments reported an increase in revenues over the previous year, while the property development segment had a slight decrease year-on-year.

Philippine National Bank (PNB) had the highest increase in revenues, followed by Tanduay Distillers, Inc. (TDI), Asia Brewery, Inc. (ABI), then Eton Properties Philippines, Inc. (Eton). PNB's revenues were driven by higher interest income and trading gains, while ABI's revenues were driven by higher contribution of its bottled water, packaging and soymilk products. Bioethanol sales improved TDI's revenues, and Eton revenues were fairly flat.

The 2019 attributable net income of LTG reached Php23.12 billion, Php6.93 billion or 42.8% higher than 2018's Php16.19 billion. The tobacco, property development and banking segments posted higher net income versus the previous year. Beverages and distilled spirits netted lower income year-on-year.

The tobacco business contributed 67% while PNB accounted for 24% of LTG's attributable income in 2019. Eton contributed 4%, TDI 3% and 2% from ABI. Equity in net earnings from 30.9%-owned Victorias Milling Company, Inc. (VMC) amounted to Php251 million, or 1% of total attributable income.

The contribution of the tobacco business reached Php15.50 billion, a Php6.78 billion or 77.8% improvement over 2018's Php8.72 billion. The tobacco business' income is primarily from the equity in net earnings of its 49.6% stake in PMFTC Inc. (PMFTC), which amounted to Php15.40 billion in 2019, a Php6.93 billion or 81.9% increase compared to 2018's Php8.46 billion. This was mainly due to favorable sales mix and higher prices implemented during the year. The excise tax law on tobacco, Republic Act (RA) 11346, was passed on July 25, 2019. This law increased taxes from Php35 per pack to Php45 per pack starting January 2020, a step-up of Php5 per pack annually from 2021 to 2023, then a 5% increase from 2024 onwards.

PNB's 2019 contribution amounted to Php5.57 billion in 2019. The bank saw an increase in its core income, but was partially dragged by an increase in operating expenses. Gains from real and other properties acquired (ROPA) likewise contributed, albeit more tempered than previous years. This brought PNB's net contribution to LTG in 2019 higher by Php97 million or 1.8% versus the previous year.

Eton's contribution amounted to Php896 million, Php417 million or 87.1% higher than the previous year's Php479 million from improved margins in its residential sales segment as well as lower operating expenses.

TDI's contribution was Php667 million, Php223 million or 25.1% lower than 2018's Php890 million. Cost increases affected margins in both liquor and bioethanol segments. These, along with higher operating expenses, led to a decrease in TDI's bottom line in 2019.

ABI contributed Php398 million to LTG, Php23 million or 5.5% lower than 2018. ABI's 2019 income was driven by volume improvements in bottled water and energy drinks, as well as locally produced soymilk. This was weighed down by higher costs for advertising, overhead and packaging, as well as marketing spend by AB Heineken Philippines, Inc. as the joint venture continues to heavily invest in the local market.

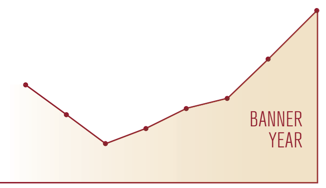
On May 9, 2019, LTG paid a regular cash dividend of Php0.15 per share and a special cash dividend of Php0.15 per share, or a total of Php3.25 billion to shareholders on record as of April 29, 2019. This is equivalent to 20.04% of 2018's attributable income of Php16.19 billion, in line with the Company's dividend policy of a 20% pay-out rate.

On July 12, 2019, LTG participated in PNB's Php12 billion stock rights offering in the amount of Php7.18 billion. In the latter part of the year, LTG redeemed Php9.52 billion of its Php18.06 billion preferred shares issued in 2013 and 2014.

Total capital expenditure was Php15.54 billion in 2019. PNB invested Php2.63 billion, primarily for IT and branch-related projects. ABI spent Php1.94 billion as it increased capacity of its bottled water business. Eton invested Php1.58 billion for the ongoing construction of its projects. TDI spent 1.08 billion for various plant upgrades. Meanwhile, LTG subscribed to Php7.18 billion in PNB's stock rights offering. The Company also invested close to Php1.14 billion in its joint venture with Ayala Land, Inc. for the 35-hectare Parklinks project.

LTG's balance sheet remains strong, with the parent company's cash balance at Php441 million as of the end of 2019. Debt-to-Equity Ratio was at 3.98:1 with the Bank, and at 0.17:1 without the Bank.

JOSE GABRIEL D. OLIVES
Chief Financial Officer



BEVERAGES

ASIA BREWERY INCORPORATED

Starting from a humble vision to break the beer monopoly in 1982, Asia Brewery, Inc. (ABI) is now a major player in the Philippine beverage and industrial packaging industry. In 2016, ABI formed a joint venture with Heineken International B.V. for the alcoholic beverage segment. The 50%-owned joint venture was named AB Heineken Philippines, Inc. (ABHP). This allowed ABI to focus on its top-selling non-alcoholic brands in the local beverage market: Cobra (#1 energy drink), Vitamilk (#1 soymilk), and trusted drinking water brands, Absolute and Summit.

ABI's revenues grew by 6% year-on-year, to Php15.93 billion in 2019 from Php15.10 billion in 2018. Higher revenues were realized by capitalizing on the continued growth in the bottled water segment and maintaining strong market positions in the energy drinks and soymilk segments. The Company commissioned a new bottled water plant in Central Luzon to meet the growing consumer demand for its bottled water products in the North. Cobra's strong brand allowed it to regain lost volumes as the energy drinks segment bounced back from demand contraction brought about by the tax on sugar sweetened beverages imposed starting 2018. Vitamilk maintains its leading position in the soymilk segment allowing it to reap the benefits of shifting consumer preference towards healthier food and drink offerings.

True to its mission to offer quality products at affordable price points, ABI's continuous efforts to innovate and improve manufacturing costs allowed it to maintain its gross profit margin despite price increases on most of its inputs brought about by the fresh round of excise tax increase on petroleum products at the beginning of 2019.

Operating expenses were 10% higher year-on-year as the Company invested more on advertising and marketing. ABI's net income amounted to Php398 million in 2019, Php23 million or 5% lower than in 2018.

Cobra upheld its market leadership commanding 72% of the energy drinks market. Cobra volumes remained stable despite aggressive price-offs waged by indirect competitors in the carbonated soft drinks market. Building on the success of its campaigns with primetime king and "Idol ng Masa" Coco Martin, Cobra launched the "Angat ang Lakas Mo!" campaign in 2019 to further strengthen its foothold in the mass market. With its sustained revenue base, Cobra remained as the Company's flagship product, accounting for over a third of revenues.

Bottled water, the second biggest contributor to revenues, continued its growth momentum with 13% volume growth in 2019. Absolute and Summit bottled water brands ranked second with a 25% market

share, just trailing behind the low-cost competitor. Backed by strong marketing and advertising support, Absolute and Summit continue to strengthen brand equity with nationwide thematic and trade programs. Summit's "Thirst for the Win" campaign and Absolute's "Pure water. Pure love." campaign of Judy Ann Santos reinforced its position as the affordable and most trusted bottled water brand for the Filipino family and consumer. Pioneering the local production of drinking water in premium glass packaging, Summit Still and Summit Sparking were launched in November 2017. In 2019, Summit became the #1 brand in the still and sparkling water in glass format category.

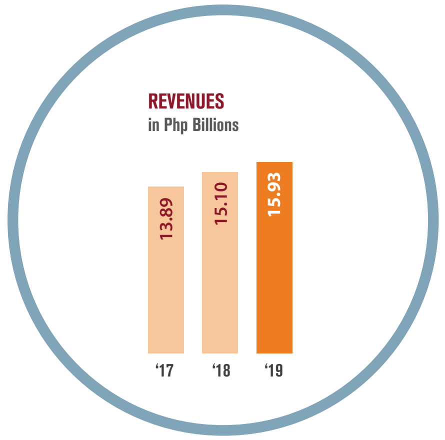
Vitamilk continued to dominate the soymilk market with 77% market share and has maintained its position as the #2 brand in the ready-to-drink milk category. With the "Pagud-tom, Fills Good" campaign, Vitamilk positions itself as the healthy and energizing drink for the youth market. Commencement of the local production of Vitamilk in one-way glass format helped fuel brand growth by 22% while controlling product costs.

In the packaging segment, the volume of commercial glass bottles sold to third party customers slowed by 4% as more capacity is shifted back to production for internal requirements. This decrease was partially offset by a 6% improvement in corrugated carton box sales. The packaging division has aggressively pursued large commercial glass customers through the emphasis on excellence in quality and customer service. As a result, it is now the preferred supplier of a leading soft drinks manufacturer and a leading condiments and sauce producer, among others, for their glass container requirements.

Other emerging product lines continue to experience encouraging growth. Creamy Delight Yogurt for one, has achieved healthy market shares in consumer markets outside of Metro Manila where its expanded flavor line and long shelf life have distinct competitive advantages. Under a joint venture with Corporacion Empresarial Pascual SL of Spain, continuous product innovations and improved distribution strategies have resulted in a 34% growth in volume for 2019. Also in 2019, ABI Pascual Foods Incorporated launched Bifrutas, the first milk with juice drink in the Philippines.

Nestea ready-to-drink iced tea, on the other hand, under license from Nestle Philippines, Inc. grew by 5% in 2019 in the midst of a crowded market.

In 2019, the Heineken, Tiger Black and Tiger Crystal beer brands continued their growth trajectory. In line with the Company's ambition to create new experiences for Filipino consumers, the Company introduced the Blade Draught beer system for Heineken. Blade enables customers and consumers to serve high quality draught beer at any location, especially in bars that do not have enough space for keg systems. The Blade also allows consumers to experience draught beer for their parties at home. ABHP has been expanding Tiger's presence in the market with increased distribution, supported by barangay activations.



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

PROPERTY DEVELOPMENT

Eton Properties Philippines, Inc.

A balanced portfolio propelled Eton Properties Philippines, Inc.'s (Eton's) net income in 2019, which soared 88% to Php900 million compared to the Php479 million reported in the previous year. Total revenues slightly decreased to Php3.14 billion from Php3.20 billion.

The growth in Eton's recurring income was driven by the strong uptake of its commercial spaces following the opening of neighborhood lifestyle and community center, Eton Square Ortigas in San Juan City, as well as stable occupancy of office spaces. As a result, Eton's rental income reached Php1.71 billion, representing a 14% increase compared to the same period last year.

Cyberpod Five

Eton WestEnd Square

Real estate sales, on the other hand, were recorded at Php1.43 billion.

Eton continued to expand its leasing portfolio with the opening of Eton WestEnd Square in Makati City. Its retail component, eWestMall, has two floors of retail spaces with a total leasable area of approximately 3,600 square meters. Dining and functional service establishments have already opened their doors to the public, and more tenants are expected to do so in the next few months. Alongside this, eWestPod, the office component of the nano-township, also opened offering over 13,000 square meters of office space.

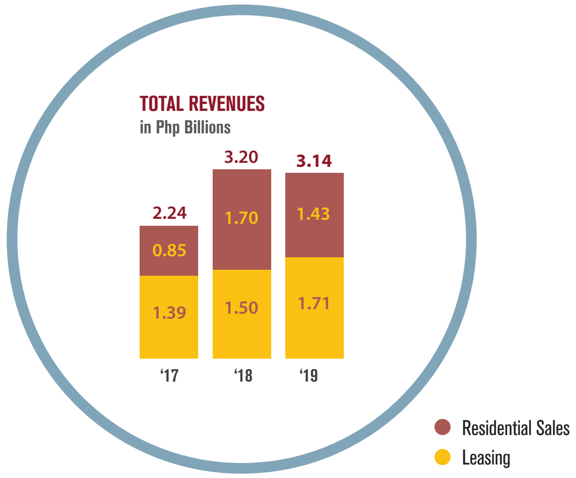
At the end of 2019, Eton has a leasing portfolio of approximately 181,000 square meters of office space and over 43,500 square meters of retail space.

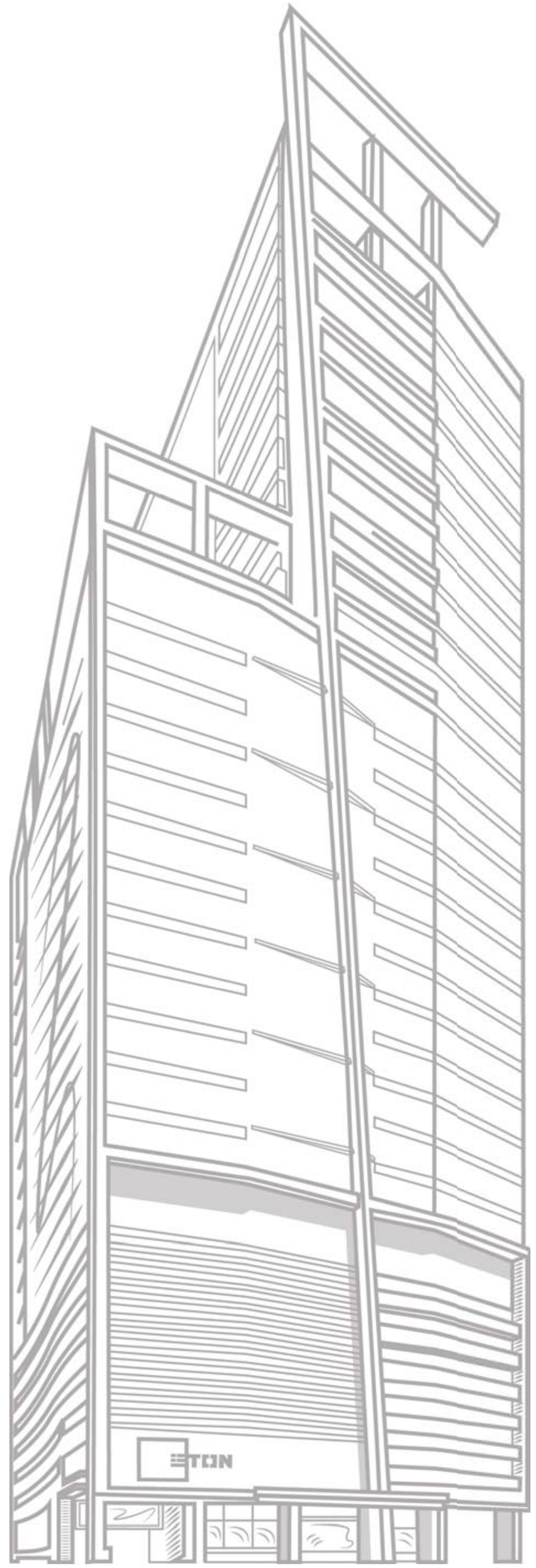
Meanwhile, Eton's construction activities remained in high gear. In 2019, the 36-storey Blakes Tower in Makati City was topped off. Once completed, it will add approximately 10,500 square meters of office space and 14,000 square meters of residential space to the Company's leasing portfolio. Construction is also ongoing for the 4.3-hectare Eton City Square in Sta. Rosa, Laguna. The first phase of the neighborhood retail and commercial center will offer 6,900 square meters of gross leasable area when finished. Likewise, construction is on track for NXTower I, an office

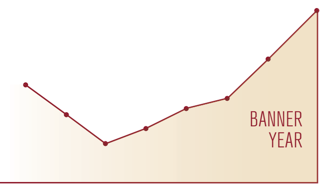
Cyberpod Five Lobby

building along Emerald Avenue and Ruby Road in Ortigas adding 21,000 square meters of gross leasable area to the Company's leasing portfolio once completed.

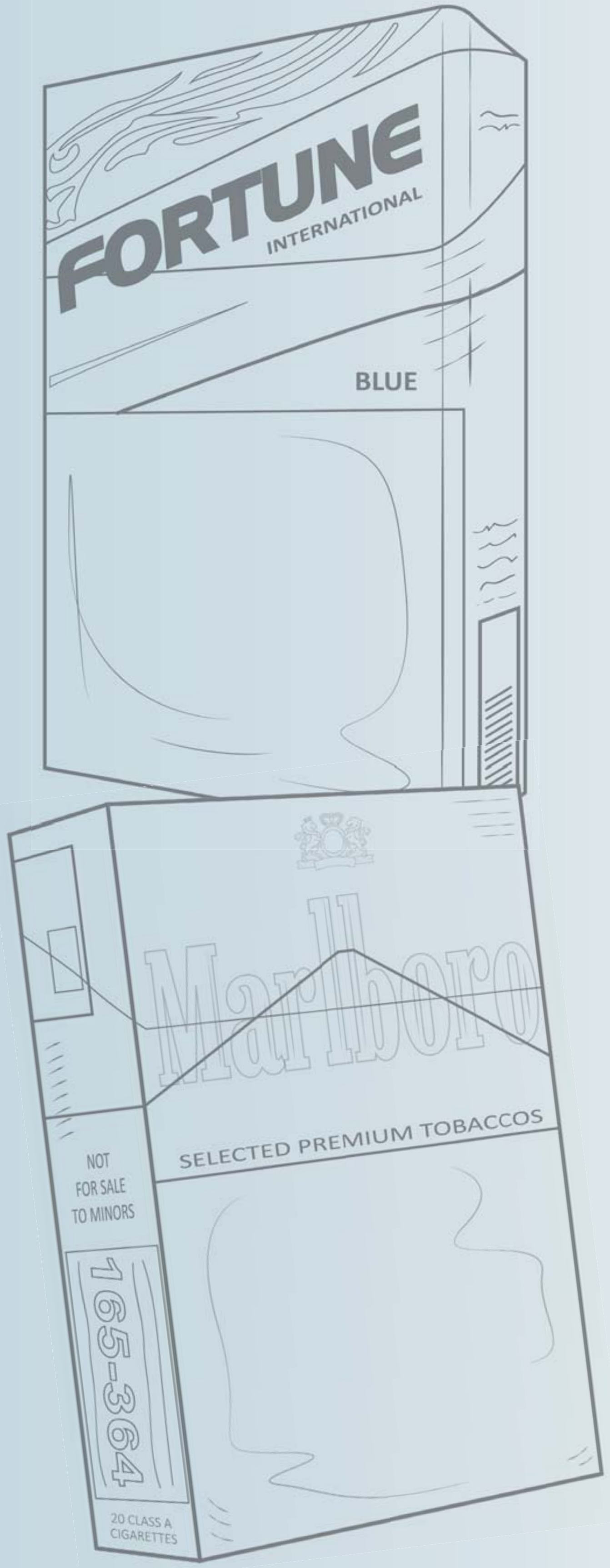
Consolidated assets increased to Php32 billion from Php31 billion in 2018. Total liabilities, on the other hand, stood at Php14 billion.







TOBACCO



PMFTC Inc.

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

PMFTC manufactures 7 out of the top 10 brands available in the market today, led by Marlboro, the world's #1 cigarette brand, and Fortune, the largest heritage home-grown brand in the Philippines.

In 2019, excise tax on cigarettes was increased following the President signing into law RA 11346. The new excise rates increased from Php35.00 to Php45.00 per pack from January 2020 until December 2020 with an increase of Php5.00 every year until 2023.

PMFTC's market share ended at 70.5%, up by 0.6 share points versus prior year.

PMFTC employs around 3,900 employees and indirectly contracts around 13,500 tobacco farmers through its suppliers, Universal Leaf Philippines and Trans Manila Inc.. The Company relies on its competent and diverse workforce supported by individual development and a merit-based career management program that recognizes potential and rewards achievements. PMFTC is continually shaping its people and culture in order to continue to thrive in the coming years and beyond.

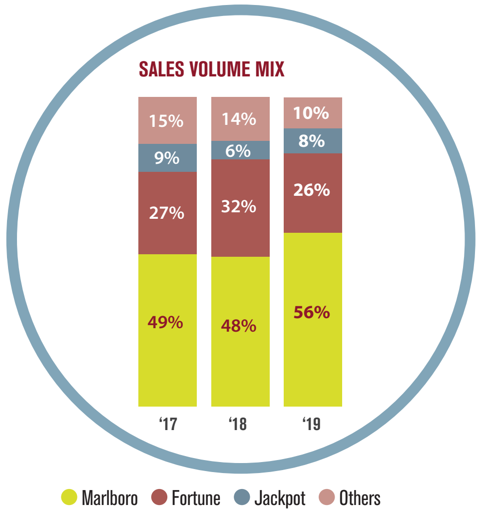
As a responsible corporate citizen, PMFTC, through its CSR program "Embrace", believes that giving back creates shared value that benefits the communities where it operates. Community investments depend on their needs with the aim to help achieve the global Sustainable Development Goals (SDGs). Programs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

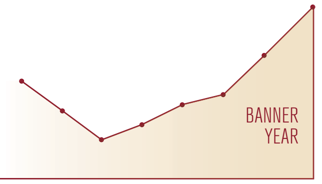
Sales and Marketing

Marlboro's solid performance continued in 2019. The year was kicked-off with the Marlboro Tipping and Gold pack upgrade, a sleek and progressive look intended for the modern-day adult smoker. To keep things fresh and relevant in the menthol segment, this was then followed with the Marlboro Ice Blast Mega launch which provided adult smokers with increased menthol sensation via the Mega capsule. Both initiatives had extensive support through visibility materials, and trade engagement that yielded impressive results.

To continue the momentum, Discovered by Marlboro was launched in August 2019. An integrated online and offline program which brings to life the brand values of Marlboro via Scanpack – a technology which allows adult smokers to scan any pack of Marlboro to discover brand stories, play games and win prizes.

These efforts strengthened the Brand Power of Marlboro and also increased market share vs. previous year, making Marlboro still the #1 cigarette brand in the Philippines.





In 2019, Fortune showed resilient performance despite its reposition from low to mid-price segment, mainly due to sustained and consistent support to the brand in the last three years. In line with the strategy to build the brand through upgrades and enhance differentiation versus competition, 3 Fortune SKUs (Original, 100s Menthol and Blue) were upgraded to FIRM FILTER along with a tipping design change in mid-July.

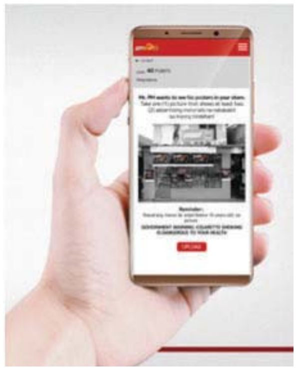
This product upgrade is supported with Marlboro's endorsement to further build quality credentials for Fortune. To further build its image as the *tropa's* ally in the Philippines, yearlong activations were conducted at major fiestas and music festivals offering a thematically designed "Festival" and "Music" limited edition packs to help reconnect the brand with its core audience and bring to life the brands promise of *"Tatak Ng Tropang Tapat."* To date, Fortune remains to be the #1 local cigarette brand in the Philippines.

In November 2019, Philip Morris Red launched nationally as PMFTC's full-flavor mid-price offer. The product provides a strong functional unique selling proposition, FIRMSTICK – the only cigarette designed with FIRM FILTER and extra tobacco to give a rich, consistent smoking experience from beginning to end. The launch was supported by massive visibility materials at point of sale, aggressive sampling targeting full flavor legal age smokers through extensive consumer engagement efforts nationwide.

Digital Trade Engagement (DTE)

In October 2019, following a successful pilot in general trade (sari-sari) stores in Manila, PMFTC commenced scaling up its new digital platform APPwards nationally. The dedicated mobile website is for the exclusive use of PMFTC approved retail customers delivering a user-friendly interface for them to earn points and redeem for rewards. Augmenting the current Field Sales Force regular retail engagement, PMFTC is now able to centrally allocate customized "digital tasks" and provide relevant information direct to retailers at a higher frequency than normal physical visits allow.

Tasks can include surveys, quizzes and brand information used to create greater understanding and feedback on our products from retailers. In addition, traditional Trade Programs designed to drive sales and launch new products can be digitalized to increase efficiency, by both reducing complexity and increasing the speed of execution.



Despite potential barriers with smartphone ownership and connectivity, by year end PMFTC has enrolled 28,500 retail outlets on the platform. Retailer acceptance and engagement was faster than expected with weekly logins as high as 81% and task completion rate of 50%.

November 2019 provided the best opportunity to fully test digital retail engagement with the national launch of Philip Morris Red. Tasks were developed and aligned with the retailer's journey through this new product launch, providing more compelling rewards for those that drive consumer sales. While expansion is continuing with new POS accessing the platform for the first time, we are purposely limiting the complexity of tasks with high repetition.

Moving forward into 2020 PMFTC's focus will be to expand the APPwards footprint in sari-sari stores, continually evolve user experience/engagement, platform efficiency and impact of tasks to generate business value growth.

Operations

2019 was a game changer for PMFTC Operations. Coming from the breakthrough performance last 2018, the challenge for 2019 was to deliver further step-change in overall performance to accelerate the organization closer to its 100+1 vision. To do this, the team embarked on the journey of Phase 0 deployment, wherein a bold goal of significantly reducing production losses has been strategically charted. Amid some challenges faced at the start of the journey, the team forged on with growing focus to significantly reduce production losses in the model line – the pilot machine from optimization initiatives are iterated and evaluated. To date, substantial milestones have been made by the model line team. The vast learnings from their journey has been and will be the source of improvement programs and ways of working that will be scaled up to the whole Operations organization.

TOBACCO

Hand in hand, PMFTC Operations remains faithful and proactive to its commitment to environmental sustainability. Several projects on reduction of single-use plastic, waste disposal and CO_2 emission have been successfully implemented. And while, year-on-year, sustainability metrics continue to improve, the team remains dedicated in working relentlessly to explore more effective sustainability programs in all fronts.

Illicit Trade

The National Committee on Intellectual Property Rights (NCIPR) reported that for January to July 2019, various law enforcement agencies seized Php13.73 billion worth of counterfeit products, close to 60% of the total value of fake goods seized in the entire 2018 which stood at Php23.6 billion. Same as 2018, the bulk of the validated inventory are counterfeit cigarettes. The legislated annual increase of excise taxes on tobacco products widened price gaps and make illicit cigarettes even more attractive. These price gap between illicit cigarettes and legitimate cigarettes range from 60% - 80%. As a result, illicit cigarettes are cheaper than PMFTC's low priced brands and the former becomes an attractive alternative for smokers, particularly the youth and those with low income.

National illicit trade incidence was relatively stable when measured via an empty pack survey in the second quarter of 2019 at 5.7% compared to 5.3% in 2018. The landscape of illicit cigarette has quickly evolved from non-tax paid genuine products to non-tax paid counterfeits and cheap contraband.

2019 was another breakthrough year in the fight against illicit trade. Twelve (12) illegal factories were shut down by various law enforcement agencies such as the BIR, BOC, NBI and the PNP. Illegal cigarette factories were discovered and raided in San Simon, Pampanga; Tacloban, Leyte; San Fernando, La Union; Marilao, Bulacan; Sta.Maria, Bulacan; Valenzuela City; Malabon City; Villasis, Pangasinan and even the local government of Cauayan, Isabela conducted its own enforcement operation and shuttered a new illicit cigarette factory. A total of 47 machines used for (1) printing fake labels and tax stamps, (2) making and packing cigarettes; and (3) manufacturing cigarette filters were seized. Perceived presence of illicit is increasing as evidenced by the rising number of raided factories (~71% increase: 2019 vs. 2018), number of seized cigarettes (~70% increase: 2019 vs. 2018), increased number of enforcement actions (~40% increase: 2019 vs. 2018).

The Philippine government has observed that recently the illegal tobacco trade has shifted from smuggling cigarettes to producing counterfeit brands here using undocumented cigarette-making machines acquired from China. Chinese government has assured cooperation with the Philippines in its anti-illicit cigarette trade campaign, particularly in stopping the entry of illegal equipment from the mainland according to the Department of Finance. The Secretary of Finance has also asked the Philippine Bureau of Customs to alert their counterparts in China and all ASEAN countries of the increasing presence of smuggled cigarettes from those countries.

People and Culture

Across 2019, PMFTC stayed strong and resolute on its determination to progress along the internal transformation journey. The thrust of the organization was to maximize its potential via further developing our internal talent, injecting new expertise and capabilities, and continuously strengthening the engagement of its proud and committed employees.

To further build employees' capabilities, PMFTC continuously fosters a learning culture. A new digitally enabled learning platform, FUSE, was launched in 2019 to provide employees both internal and external learning content, anytime and anywhere. LearnX sessions facilitated by external subject matter experts enriched employees' perspective on key trends and emerging competencies such as storytelling, consumer centricity, intentional learning, and digital.

The year culminated on a high note. After a stringent 6-month vetting process, PMFTC was certified as a TOP Employer in the Philippines by the TOP Employer Institute which is the global authority on recognizing excellence in human resource practices. The certification process consisted of a detailed critical assessment of our practices & programs in the following areas: Talent Strategy, Workforce Planning, Talent Acquisition, Onboarding, Learning and Development, Performance Management, Career and Succession Management, Compensation and Benefits, and Culture. To date, there are only 11 companies in the Philippines that have been awarded this recognition.

As part of the Company's external transformation efforts, PMFTC also started on its Digital Employer Branding initiative. Through various social media channels, PMFTC gives the public a realistic glimpse of life inside—its rich culture, authentic stories of our diverse employees and their experiences, and the exciting career opportunities that await those who are interested to disrupt the tobacco industry and be part of the change the Company is leading.

Project Management Organization

PMFTC completed the formation of the Project Management Office (PMO) organization with a line-up that combined internal members from different functions and newly acquired talent to supplement Project Management and Agile Ways of Working expertise. The team in less than a year was able to mobilize functional PMO in order for the unit to be responsible in ensuring that the Company develops the centralized and coordinated management of all critical & strategic projects. Initial win was achieved as these projects were made visible across functions with a common lens to update, speed up decision making for project teams via governance reviews.

Follow through was done on the previous year's success milestones on the New Ways of Working via Fast Forward (FFWD) by integrating the ownership of this within PMO. A number of FFWD projects pitched in 2018 saw progress and scale-up efforts such as E-Ordering and E-payments that got folded under Digital Trade Engagement & Cigarette Butt collection brand promotion, to name a few. Key individuals that also were pivotal practicing the New Ways of Working in the previous year progressed in further honing their skills set and contributing back to the Company by applying as internal FFWD catalysts (3) and functional builders (21) in order to further increase the growing critical mass of employees who are already actualizing a more consumer-centric mindset.

Inclusion and Diversity

PMFTC continued to strengthen its commitment to achieve a nurturing, fair and inclusive environment where our employees thrive and celebrate diversity. In 2019, for the second year in a row, the Company retained its Equal Salary Certification which proves that we stand true behind our commitment to equal pay among men and women. A significant addition to its portfolio of well-being related initiatives is the introduction of the Agile and Balanced Life Program - ABLE. Under this program, PMFTC launched its Flexible Work Around Core Hours and Remote Work setup, allowing employees greater flexibility around managing and balancing their professional and personal commitments. Likewise, a 24/7 Employee Assistance Program Helpline was also established to further support and sustain the emotional and mental well-being of our employees.

Philippine National Bank
You first.

Philippine National Bank (PNB) sustained healthy financial results in 2019 and scored milestones in various areas in the business. PNB registered a net income of Php9.9 billion, slightly higher than the earnings of Php9.8 billion in 2018. The growth in net profit resulted from sustained efforts in strengthening the Bank's core business. Excluding the impact of non-recurring gains from the sale of foreclosed assets, the Bank's core net income grew by 55% year-on-year.

Net interest income reached Php32.5 billion, 20% higher compared to the previous year, driven by improved earnings from loans to corporate, commercial and small and medium enterprises, and other interest-earning assets. Loan receivables registered double digit growth to Php657.9 billion, higher by 12% from 2018. On the other hand, deposit liabilities reached Php826.0 billion, up by 13% versus 2018 year-end level.

Net service fees and commission income grew by 20%, propelled by enhanced cross selling efforts resulting in improvements in underwriting fees from capital market transactions as well as loan, deposit and credit card-related fees. Net trading and foreign exchange gains expanded by 98%, resulting mainly from favorable opportunities in the market.

Meanwhile, net gains from sale of acquired assets declined to Php690.7 million compared to last year's Php5.9 billion. Despite the reduction, total operating income registered a 6% improvement on account of solid growth in core revenues. Excluding net gains from sales of foreclosed assets, total operating income increased by 22% year-on-year.

PNB's total consolidated resources stood at Php1.2 trillion, up Php159.5 billion or 16% from year-ago level. The year's financial results reflect the strength of PNB's franchise in its wholesale and retail businesses.

The Bank's asset quality remained strong with non-performing loan (NPL) ratios of 0.68% net of valuation reserves and 1.99% at gross. NPL coverage on the other hand stood at 118.91%. PNB's consolidated risk-based capital adequacy ratio (CAR) stood at 14.80%, exceeding the minimum regulatory requirement of 10% and Common Equity Tier (CET) 1 ratio at 14.10% by end-2019.

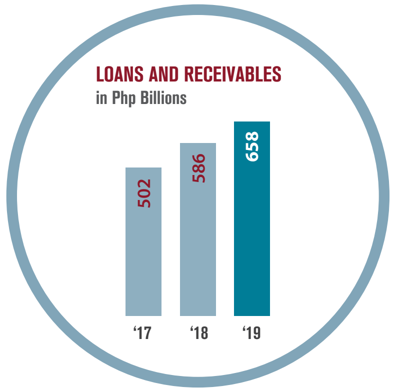
In 2019, PNB funded several projects in the power, water supply, and infrastructure industries thereby giving underserved areas access to facilities and/ or improving agricultural activity from the rural areas to the metropolis.

PNB continues to be very active in offering investment opportunities to customers. During the year, the Bank issued Php8.22 billion Long-Term Negotiable Certificates of Time Deposit (LTNCDs), at a coupon rate of 5.750% per annum with a tenor of five years and six months. This is the largest LTNCD issuance of the Bank to date and was 2.7 times oversubscribed. PNB likewise listed its maiden offering for fixed rate Philippine Peso bonds, which reached Php13.9 billion, equivalent to an oversubscription of almost three times the announced issue size of Php5 billion. Moreover, PNB issued USD750 million worth of Senior Notes, which is the largest in the Philippine banking history. At orderbook value of over USD3.25 billion, this is the biggest in terms of demand size in Philippine banking history. To commemorate its 103rd Anniversary, PNB launched a Php12 billion Stock Rights Offering, earning a positive feedback from investors. With the additional capital, we foresee a solid support for our growth strategy in the medium term.

On the other hand, PNB's overseas branches specifically those located in Hong Kong, Japan, and Singapore actively conducted financial wellness programs to educate Filipinos on the importance of savings and investment. This initiative, coupled with financial literacy programs for students in the greater Metro Manila area, was a fertile ground for the acquisition of new customers.

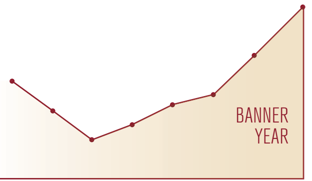
PNB recognizes the significance of digital transformation in creating a safe, secure, and seamless banking experience for our customers. To support the Philippine government's National Retail Payment System (NRPS), the Bank enhanced its mobile banking services with PESONet and InstaPay. Using the PNB Mobile App, customers can perform real-time electronic fund transfers to participating banks in the Philippines. For the millions of Filipinos overseas, PNB has embarked on a digital strategy of launching a mobile remittance application. Finally, the Bank's Trust Banking Group implemented the country's first end-to-end fully automated UITF online facility where customers can enroll, invest, and redeem funds through the internet or with the convenience of their mobile phones. PNB is committed to embodying the values of diversity and inclusion as part of its professional culture. In August 2019, PNB became the first local bank to join the Philippine Business Coalition for Women Empowerment (PBCWE), an organization comprised of large influential companies that promote gender equality in the workplace. The Bank aims to undergo the Economic Dividends for Equality (EDGE) Certification, a leading global assessment methodology and business standard for gender equality that evaluates the workplace's performance of an organization against global and industry benchmarks.

PNB proactively engages employees in living out the Bank's sustainability mission. In September, the Bank launched *Project P.L.A.N.E.T.* which stands for *Protect, Love, and Nurture the Environment Together.* This campaign is our journey towards making the Bank a planet-friendly workplace. In November, PNB held its first Sustainable Lifestyle Fair featuring a bazaar showcasing eco-friendly, sustainably sourced products and organic food items. The Bank hosted the 36th Asian Bankers Association Conference and General Meeting on the same month. With the theme, *Reshaping the Asian Financial Landscape*, the gathering is the largest conference of its kind in Asia, bringing together more than 150 different decision-makers of peer banks across Asia. PNB also became the official partner of the 30th Southeast Asian Games held in the country. This momentous event granted significant exposure, not only with Filipinos, but also with the international community. The Bank's Prepaid Card product was issued to 9,000 volunteers where their allowances were credited.



On the awards front, several accolades were given to PNB. The Bank received an award for "Best FIG Bond-Philippines", recognizing its USD750 million fixed rate notes issued in June 27, 2019. The deal marked the Bank's successful return to the offshore bond market with the largest offering size from the Philippine banking sector. PNB was also awarded by the Social Security System (SSS) as its "Best Paying Commercial Bank" partner during the 2019 Balikat Ng Bayan Awards proving that the Bank is a reliable partner in providing diverse banking services to SSS and its members. Lastly, for the second straight year, PNB was recognized by the Institute of Corporate Directors (ICD) for being one of the awardees of its ASEAN Corporate Governance Scorecard (ACGS) Arrow for 2018.

As a new decade unfolds, 2020 ushers in a landscape filled with potentials for growth. Moving forward, the Bank aims to continue to strengthen its core business and digital capabilities to make end-to-end banking seamless for customers. PNB is part of your community. No matter who you are or where you came from, PNB will gladly open its doors as it is the *Partner* that you can always lean on.



TANDUAY *Distillers, Inc.*

The local spirits industry grew by 2% in 2019 recovering from a slowdown last year due to weakened consumer purchasing power. The growth in spirits was due to the strong showing of the Visayas and Mindanao area which grew by 6% compared to the flat volumes in Luzon. Rum, the leading spirits brand in Southern Philippines, posted a 6% growth compared to the 3% increase of the gin segment and the 7% decline of the brandy category.

Riding on the higher demand in Visayas and Mindanao, the Company's market share in terms of sales volume improved further from 27% to 29% year-on-year. Intensive dealer retention programs and aggressive marketing campaigns continue to bear good results leading to a stronger grip of the Southern Philippine spirits market at 68%. Liquor sales volume stayed at the twenty million cases mark in 2019 improving by 2%. Sales of bioethanol and other alcohol products continued to grow in double digits.

Revenues improved by 6% from Php18.1 billion to Php19.3 billion as the volume increase was complemented by higher average selling prices of both liquor and bioethanol. Cost of sales however grew at a faster pace of 8% to Php16.1 billion due to higher excise tax and packaging materials costs that offset the slight lowering of alcohol costs. Gross profit thus declined by 1% to Php3.2 billion.

Net income after tax amounted to Php676 million which is 26% lower compared to 2018, also on account of higher operating expenses.

Tanduay continued to expand its market reach abroad as it added more distribution points in the USA and opened up marketing channels in Guam, Singapore and the United Arab Emirates.

Tanduay's business landscape is fraught with difficulties and pressure from a highly competitive environment and tightening regulatory framework. The Tanduay organization, with firmer resolve, will continuously nurture a strategic team-based agile culture to attain its vision of being the best in its business.

CORPORATE GOVERNANCE REPORT

Good corporate governance dictates that a corporation should adhere to the principles of prompt disclosure and transparency to allow "the regulators, shareholders and the general public the opportunity to access accurate information about its financial, operational, and other aspects of the company." By doing so, a company establishes its credibility and standing that generates the trust of the people and its stakeholders. And, by earning trust, the rest will follow.

For LT Group, Inc., otherwise known as LTG, trust of all its partners, stakeholders, stockholders, customers, suppliers, the government and the community, is vital in ensuring its mark in the industry. For without trust, there would be no customers who will support its products and services.

Thus, for the past years, the Company made sure to work side by side with men and women of knowledge, competence and dedication in bringing the Company to greater heights. These people served as members of its Board of Directors and Management.

BOARD COMPOSITION

The Company believes that healthy and unbiased differences in opinions and points of views are necessary for the proper management of any corporation since diversity brings with it more ideas to help a corporation look beyond what is normal and what is expected of it.

Thus, throughout the years, the Company maintained both men and women of diverse beliefs and opinions, but with the same vision of keeping the interest of the Company a top priority.

In 2019, to comprise of its Board of Directors, the Company elected five (5) women and six (6) men who are known to be knowledgeable and successful in their respective fields. Unfortunately, Mr. Lucio K. Tan, Jr. passed away last November 11, 2019. To continue his legacy, his son, Mr. Lucio C. Tan III, took over and was appointed as a member of the Board of Directors on December 17, 2019. Nevertheless, it is undisputed that collectively, their service has undoubtedly contributed to the continued success of the Company.

Moreover, the Board is composed of Non-Executive Directors (NED) (73%) and Executive Directors (ED) (27%), with four (4) men and women of probity and intelligence to serve as Independent Directors (ID). This is consistent with the recommendations of the Securities and Exchange Commission (SEC) and to ensure a balanced outlook and assessment in making the various business decisions on behalf of the Company.

As further required by the SEC, the Independent Directors do not own more than 2% of the Company's outstanding capital stock; have no ties to the Management; and are free from any business or other relationships which could, or could possibly be perceived to materially interfere with their exercise of independent judgment in carrying out their responsibility as Independent Directors of the Company.

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

DR. LUCIO C. TAN, 85, *Chairman and CEO*

Dr. Tan is the Chairman of Absolut Distillers, Inc., Alliedbankers Insurance Corporation, Allianz PNB Life Insurance, Air Philippines Corporation, Asia Brewery, Inc., Asian Alcohol Corporation, Basic Holdings Corporation, Buona Sorte Holdings, Inc., Eton Properties Philippines, Inc., Fortune Tobacco Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Lucky Travel Corporation, Mabuhay Maritime Express Transport, Inc., **MacroAsia Corporation**, Philippine Airlines, Inc., PMFTC Inc., Progressive Farms, Inc., **PAL Holdings, Inc.**, Tanduay Distillers, Inc., Tanduay Brands International, Inc., Tangent Holdings Corporation, The Charter House, Inc., Trustmark Holdings Corporation, University of the East, Zuma Holdings and Management Corporation. He is also a Director of **Philippine National Bank**. He holds a Bachelor of Science degree in Chemical Engineering from Far Eastern University. He was awarded the degree of Doctor of Philosophy, major in Commerce, by the University of Santo Tomas in 2003 and is an awardee of several other honorary Doctorate degrees.

Board Attendance: 83%: 10 of 12 Board Meetings
Date of First Appointment: July 2, 1999
No. of Years on the Board: 20 Years
Other Information: No conflict of interest transactions in the past one (1) year.

CARMEN K. TAN, 78, *Director*

Ms. Tan is the Vice Chairman of Philippine Airlines, Inc. and Director of Air Philippines Corporation, Asia Brewery, Inc., Buona Sorte Holdings, Inc., Foremost Farms, Inc., Dynamic Holdings, Ltd, Eton City, Inc., Fortune Tobacco Corporation, Himmel Industries, Inc., Lucky Travel Corporation, **MacroAsia Corporation**, **PAL Holdings, Inc.**, **Philippine National Bank**, PMFTC Inc., Progressive Farms, Inc., Tanduay Distillers, Inc., Manufacturing Services and Trade Corporation, Sipalay Trading Corporation, Saturn Holdings, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation and Zuma Holdings and Management Corporation.

Board Attendance: 83%: 10 of 12 Board Meetings
Date of First Appointment: May 5, 2010
No. of Years on the Board: 9 Years
Other Information: No conflict of interest transactions in the past one (1) year.

HARRY C. TAN, 73, *Director*

Mr. Tan is a Director of Eton Properties Philippines, Inc., Pan-Asia Securities Corp. and Lucky Travel Corporation; Managing Director of The Charter House, Inc.; Director and Chairman for Tobacco Board of Fortune Tobacco Corporation; Director and President of Maranaw Hotel (Century Park Hotel) and Landcom Realty Corporation; Director of Asia Brewery, Inc., Alliedbankers Insurance Corporation, Absolut Distillers, Inc., Basic Holdings Corporation, Foremost Farms, Inc., Himmel Industries Inc., PMFTC Inc., Progressive Farms, Inc., Grandspan Development Corporation and Tanduay Distillers, Inc. He is also the Advisor of the Board of **Philippine National Bank**. He holds a Bachelor of Science degree in Chemical Engineering from the Mapua Institute of Technology.

Board Attendance: 92%: 11 of 12 Board Meetings
Date of First Appointment: May 28, 2008
No. of Years on the Board: 11 Years
Other Information: No conflict of interest transactions in the past one (1) year.

MICHAEL G. TAN, 53, *President and COO*

Mr. Tan is a Director, President and Chief Operating Officer of Asia Brewery, Inc.; Director of Tanduay Distillers, Inc., Tangent Holdings Corp., **Philippine National Bank**, Eton Properties Philippines, Inc., PMFTC Inc., **Victorias Milling Company, Inc.**, Sabre Travel Network (Philippines), Inc., Alliedbankers Insurance Corporation, Lucky Travel Corp., Maranaw Hotel (Century Park Hotel), Pan-Asia Securities Corp., **MacroAsia Corporation** and Philippine Airlines, Inc. He holds a Bachelor of Science degree in Applied Science in Civil Engineering, major in Structural Engineering, from the University of British Columbia, Canada.

Board Attendance: 100%: 12 of 12 Board Meetings
Date of First Appointment: February 21, 2003
No. of Years on the Board: 16 Years
Other Information: No conflict of interest transactions in the past one (1) year.

LUCIO K. TAN, JR.+, 53, *Director*

Mr. Tan was the Director, President and Chief Operating Officer of Tanduay Distillers, Inc. and Tanduay Brands International, Inc.; Director and President of Eton Properties Philippines, Inc. and **PAL Holdings, Inc.**; Director and Executive Vice President of Fortune Tobacco Corporation; Director of Absolut Distillers, Inc., Alliedbankers Insurance Corporation, Asian Alcohol Corporation, Asia Brewery, Inc., Philippine Airlines, Inc., **Philippine National Bank**, **MacroAsia Corporation**, **Victorias Milling Company, Inc.**, PMFTC Inc., Lucky Travel Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Tangent Holdings Corporation, Trustmark Holdings Corporation, Shareholdings, Inc. and Zuma Holdings and Management Corporation. He graduated from the University of California, Davis in 1991 with a Bachelor of Science degree in Civil Engineering and had a Master's Degree in Business Administration from the Kellogg School of Management Northwestern University.

Board Attendance: 91%: 10 of 11 Board Meetings (Passed away on November 11, 2019)
Date of First Appointment: February 21, 2003
No. of Years on the Board: 16 Years
Other Information: No conflict of interest transactions in the past one (1) year.

LUCIO C. TAN III, 27, *Director*

Mr. Tan was elected as Director and Chief Operating Officer of Tanduay Distillers, Inc. and Director of **MacroAsia Corporation**, **PAL Holdings, Inc.**, Philippine Airlines, Inc., and Air Philippines Corporation in 2019. He earned his Bachelor's Degree in Electrical Engineering from Stanford University in 2015 and Master's Degree in Computer Science from Stanford University in 2017.

Board Attendance: 100%: 1 of 1 Board Meeting
Date of First Appointment: December 17, 2019
No. of Years on the Board: Less than a year
Other Information: No conflict of interest transactions in the past one (1) year.

VIVIENNE K. TAN, 51, *Director*

Ms. Tan was elected as member of the Board of Directors in 2019. She serves as Director of **Philippine National Bank**, **PAL Holdings, Inc.**, and Philippine Airlines, Inc.; Member of the Board of Trustees of University of the East and University of the East Ramon Magsaysay Memorial Medical Center; Executive Vice President of Philippine Airlines, Inc.; Founding Chairperson of Entrepreneurs School of Asia; and Founding Trustee of Philippine Center for Entrepreneurship (Go Negosyo).

Board Attendance: 100%: 8 of 8 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 1 Year
Other Information: No conflict of interest transactions in the past one (1) year.

JUANITA T. TAN LEE, 77, *Director and Treasurer*

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

Board Attendance: 100%: 12 of 12 Board Meetings
Date of First Appointment: May 2, 2012
No. of Years on the Board: 7 Years
Other Information: No conflict of interest transactions in the past one (1) year.

JOHNIP G. CUA, 63, *Independent Director*

Mr. Cua has served as a member of the Board of Directors since May 2018. He was formerly the President of Procter & Gamble Philippines, Inc., currently the Chairman of the Board of the P&Gers Fund, Inc. and Xavier School, Inc., and the Chairman & President of Taibrews Corporation. He is an Independent Director of BDO Private Bank, PhilPlans First, Inc., Eton Properties Philippines, Inc., Asia Brewery, Inc., Tanduay Distillers, Inc., **MacroAsia Corporation**, MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, **PAL Holdings, Inc.** and Philippine Airlines, Inc. He is also a member of the Board of Directors of Interbake Marketing Corporation, Teambake Marketing Corporation, Bakerson Corporation, Lartizan Corporation, Alpha Alleanza Manufacturing, Inc., and Allied Botanical Corporation, and a member of the Board of Trustees of Xavier School Educational & Trust Fund. He was formerly the Chairman of the Board of Trustees of the Advertising Foundation of the Philippines.

Board Attendance: 92%: 11 of 12 Board Meetings
Date of First Appointment: May 8, 2018
No. of Years on the Board: 2 Years
Other Information: No conflict of interest transactions in the past one (1) year.

MARY G. NG, 66, *Independent Director*

Ms. Ng was elected as member of the Board of Directors in 2019. She is the Chief Executive Officer of H&E Group of Companies and an Honorary President of the Packaging Institute of the Philippines, the Philippine Plastic Industrial Association of the Philippines, and the Association of Volunteer Fire Chiefs and Firefighters of the Philippines. She is the first woman Chairman of the ASEAN Federation of Plastic Industries (AFPI), Executive Vice President of Federation of Filipino-Chinese Chamber of Commerce and Industries, a Tripartite Board member of the Department of Labor and Employment, a Board member of Technical Educational and Skills Development Authority (TESDA), Vice President of the Philippine Piak O Eng Chamber of Commerce and Philippine Piak O Eng Uy's Association and Director of Philippine Dongshi Townmate Association, Inc.

Board Attendance: 75%: 6 of 8 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 1 Year
Other Information: No conflict of interest transactions in the past one (1) year.

WILFRIDO E. SANCHEZ, 83, *Independent Director*

Mr. Sanchez is the Tax Counsel of Quiason Makalintal Barot Torres Ibarra Sison & Damaso Law Offices; Vice Chairman of The Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corporation, **EEI Corporation**, Grepalife Asset Management Corporation, Grepalife Fixed Income Fund Corporation, **House of Investments, Inc.**, JVR Foundation, Inc., Kawasaki Motor Corporation, Magellan Capital Holdings Corporation, Omico Corporation, PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corporation, Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and **Universal Robina Corporation**; Independent Director of Eton Properties Philippines, Inc., Asia Brewery, Inc., and Tanduay Distillers, Inc. He holds a Bachelor of Arts degree from the Ateneo de Manila University and has a Post-Graduate degree in Bachelor of Laws from the Ateneo De Manila University and Masters of Law from Yale Law School.

Board Attendance: 92%: 11 of 12 Board Meetings
Date of First Appointment: July 31, 2012
No. of Years on the Board: 7 Years
Other Information: No conflict of interest transactions in the past one (1) year.

FLORENCIA G. TARRIELA, 73, *Independent Director*

Ms. Tarriela is the Chairman and Independent Director of **Philippine National Bank**, PNB Capital and Investment Corporation, PNB-IBJL Leasing and Finance Corporation, and PNB-IBJL Equipment Rentals Corporation; Independent Director of PNB International Investments Corporation; Director of Bankers Association of the Philippines; Director/Vice President of Tarriela Management Company and Director/Vice President/Assistant Treasurer of Gozon Development Corporation; and Life Sustaining Member of Bankers Institute of the Philippines (BAIPHIL) and Financial Executives of the Philippines (FINEX). She has also been a Board Trustee of Tulay sa Pag-unlad, Inc. (TSPI) since 2003. A former Undersecretary of Finance, and used to be an alternate Board Member of the following: Monetary Board of BSP, Land Bank of the Philippines, and the Philippine Deposit Insurance Corporation (PDIC). She was a Managing Partner and the first Filipina Vice President of Citibank N.A., Philippines. Currently, she is a columnist for "Business Options" of the Manila Bulletin and "FINEX Folio" of BusinessWorld.

Board Attendance: 92%: 11 of 12 Board Meetings
Date of First Appointment: August 9, 2012
No. of Years on the Board: 7 Years
Other Information: No conflict of interest transactions in the past one (1) year.

CORPORATE GOVERNANCE REPORT

BOARD RESPONSIBILITIES

The Company's By-Laws require the Board of Directors to regularly hold meetings every second Tuesday of the month. During said meetings, all companies under the conglomerate are represented by their respective Chief Financial Officers (CFOs) or Chief Operating Officers (COOs) who are tasked to report on the operational results of their respective divisions and brief the Board on other developments in the market place, including their plans and initiatives for the year.

On the other hand, quarterly meetings are attended by all Presidents/ Chief Executive Officer (CEO) or COOs of the subsidiaries, together with their CFOs.

In 2019, the Board conducted 12 meetings which were religiously attended to by its members, as shown in the table below:

Board	Name	Date of Election	No. of Meetings Held during the year (2019)	No. of Meetings Attended	%
Chairman	Lucio C. Tan	05/07/2019	12	10	83
Member	Carmen K. Tan	05/07/2019	12	10	83
Member	Harry C. Tan	05/07/2019	12	11	92
Member	Michael G. Tan	05/07/2019	12	12	100
Member	Juanita T. Tan Lee	05/07/2019	12	12	100
Independent	Johnip G. Cua	05/07/2019	12	11	92
Independent	Wilfrido E. Sanchez	05/07/2019	12	11	92
Independent	Florencia G. Tarriela	05/07/2019	12	11	92

Ms. Vivienne K. Tan and Ms. Mary G. Ng were both elected on May 7, 2019. Below table shows the participation of the newly elected directors of 2019.

Board	Name	Date of Election	No. of Meetings Held during the year (2019)	No. of Meetings Attended	%
Member	Vivienne K. Tan	05/07/2019	8	8	100*
Independent	Mary G. Ng	05/07/2019	8	6	75*

* Percentage based on number of meetings attended from date of appointment.

Below table shows the directorship participation of Mr. Lucio K. Tan, Jr. before his untimely death on November 11, 2019. He attended 10 of 11 meetings in his 2019 tenure.

Mr. Lucio C. Tan III was appointed a Director on December 17, 2019. He attended the 1 meeting held in his 2019 tenure.

Board	Name	Date of Election	No. of Meetings Held during tenure (2019)	No. of Meetings Attended	%
Member	Lucio K. Tan, Jr.+	05/07/2019	11	10	91+
Member	Lucio C. Tan III	12/17/2019	1	1	100*

+Deceased on November 11, 2019.
* Percentage based on number of meetings attended from date of appointment.

BOARD COMMITTEES

The Company has created four (4) committees to assist the Board in managing the Company and its subsidiaries. These committees are: (i) the Audit and Risk Management Committee, (ii) the Executive Committee, (iii) the Nomination and Compensation Committee, and (iv) the Corporate Governance Committee. Each was created to oversee the proper operations of the Company, including its subsidiaries, and likewise to create the necessary check and balances to ensure the fair and transparent transactions of the Company.

Name	Audit and Risk Management	Executive	Nomination and Compensation	Corporate Governance
Lucio C. Tan		C	C	
Carmen K. Tan				
Harry C. Tan		✓	✓	
Michael G. Tan		✓	✓	✓
Lucio K. Tan, Jr.+	✓	✓	✓	✓
Lucio C. Tan III				
Vivienne K. Tan		✓		
Juanita T. Tan Lee	✓	✓	✓	
Johnip G. Cua	C	✓		✓
Mary G. Ng				
Wilfrido E. Sanchez	✓		✓	✓
Florencia G. Tarriela	✓	✓		C

+Deceased on November 11, 2019.

AUDIT AND RISK MANAGEMENT COMMITTEE (ARMC)

In compliance with the SEC's recommendation for good corporate governance, the ARMC is composed of five (5) Directors, three (3) of whom, including the Chairman, are Independent Directors. Its members are Mr. Johnip G. Cua as Chairman, Mr. Lucio K. Tan, Jr.+, Ms. Juanita T. Tan Lee, Ms. Florencia G. Tarriela and Mr. Wilfrido E. Sanchez.

The ARMC Chairman has served the Company as a member of the Board of Advisors since August 2014 and has been a director thereof since May 2018. He likewise serves as Director/Officer of other companies within and outside the Company.

As provided in its charter, the ARMC is tasked to assist the Board in its oversight functions. During its meetings, the ARMC is informed of the financial and non-financial status of the Company, the management of its risks, the system of internal control, the audit process, and the Company's process for monitoring compliance with laws and regulations including Related Party Transactions (RPTs).

In 2019, the Committee conducted six (6) meetings, as provided in the table below:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee (years)
Chairman (ID)	Johnip G. Cua	05/07/2019	6	6	100	2
Member (NED)	Lucio K. Tan, Jr.+	05/07/2019	6	0	0	6
Member (ED)	Juanita T. Tan Lee	05/07/2019	6	6	100	6
Member (ID)	Wilfrido E. Sanchez	05/07/2019	6	6	100	6
Member (ID)	Florencia G. Tarriela	05/07/2019	6	6	100	6

+Deceased on November 11, 2019.

For the calendar year 2019, the Committee:

- Reviewed and approved the Audit Report and Audited Financial Statements as of and for the period ended December 31, 2018 as examined and presented by Sycip Gorres Velayo & Co. ("SGV & Co.") and endorsed them to the Board of Directors for approval.
- Approved the recommendation to select and appoint the auditing firm of SGV & Co. as the Company's External Auditor for the year 2019.
- Reviewed and approved the Unaudited Consolidated Quarterly Financial Statements and endorsed the same for notation of the Board and submission to the appropriate government regulatory agencies.
- Reviewed the scope of work and fees of the external auditors, assessed their independence and effectiveness, and endorsed them to the Board of Directors.
- Noted and approved the grant to the President or Chief Financial Officer of the Company the authority to negotiate and sign contracts of audit and non-audit engagements with the External Auditor and endorse the same for approval of the Board.
- Reviewed and approved the Internal Audit Reports as well as the Audit Risk Ratings and Recommendations given as presented by the Internal Auditors.

As part of its responsibilities to oversee RPTs, the Committee likewise reviewed the RPT Policy of the Company, in compliance with the SEC Memorandum Circular No. 10, Series of 2019, otherwise known as the Rules on Material Related Party Transactions for Publicly-Listed Companies.

EXECUTIVE COMMITTEE (EXCOM)

The EXCOM is responsible in ensuring that the Board manages the businesses and affairs of the Company properly. Their authority, however, is limited to functions not expressly reserved to the Board of Directors under the laws of the Philippines, the corporate By-Laws and the Company's Revised Corporate Governance Manual.

As part of good governance, the EXCOM is composed of eight (8) directors namely, Dr. Lucio C. Tan as Chairman and Mr. Harry C. Tan, Mr. Lucio K. Tan, Jr.+, Mr. Michael G. Tan, Ms. Vivienne K. Tan, Ms. Juanita T. Tan Lee, Mr. Johnip G. Cua and Ms. Florencia G. Tarriela as members.

As provided in its charter, the EXCOM holds meetings on an as-need basis. Since no urgent matters arose requiring their approval, it did not conduct any meeting in 2019.

NOMINATION AND COMPENSATION COMMITTEE (NCC)

The NCC is composed of six (6) directors with Dr. Lucio C. Tan as Chairman and Mr. Harry C. Tan, Mr. Lucio K. Tan, Jr.+, Mr. Michael G. Tan, Ms. Juanita T. Tan Lee and Mr. Wilfrido E. Sanchez as members.

In compliance with its charter, and for purposes of ensuring a formal and transparent Board nomination process in the selection, compensation, monitoring and, when necessary, replacement of key executives as well as overseeing the succession planning of the Company, the Committee conducts a meeting at least once a year.

On March 8, 2019, the Committee convened and passed upon the qualifications of candidates who are nominated to hold key positions in the Company:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ED)	Lucio C. Tan	05/07/2019	1	1	100	5 years
Member (NED)	Harry C. Tan	05/07/2019	1	1	100	5 years
Member (ED)	Michael G. Tan	05/07/2019	1	1	100	5 years
Member (NED)	Lucio K. Tan, Jr.+	05/07/2019	1	1	100	5 years
Member (ED)	Juanita T. Tan Lee	05/07/2019	1	1	100	7 years
Member (ID)	Wilfrido E. Sanchez	05/07/2019	1	1	100	5 years

+Deceased on November 11, 2019

CORPORATE GOVERNANCE COMMITTEE (CGC)

In 2019, the Company consistently implemented various activities, projects and actions necessary to achieve good corporate governance. It updated its Charters and Manuals to conform to the recommendations set by the SEC and executed its Related Party Transactions Policy to ensure that all transactions are conducted at arm's length.

The CGC is composed of five (5) directors, namely, Ms. Florencia G. Tarriela as its Chairman and Mr. Lucio K. Tan, Jr.+, Mr. Michael G. Tan, Mr. Johnip G. Cua and Mr. Wilfrido E. Sanchez, as its members, all eager to bring the Company to its best potential. Thus, throughout the year, they met thrice to ensure that the Company is compliant with the recommendations of the SEC.

To start the year off, the CGC met to be informed of the Company's standing with regard the ASEAN Scorecard. Through their guidance, the Company has achieved a higher rating which proved the Company's various efforts to become a world class conglomerate able to keep its brand in a good light and able to ensure the continuous benefits received by its consumers, employees, business partners, stockholders and by the community.

Further to their purpose of assisting the Board into leading the Company to greater heights, a Group-wide Corporate Governance Seminar was held last July 29, 2019 with the firm of SGV & Co. as the service provider. This seminar was attended by the different directors, officers and employees of the whole Group.

Lastly, as the CGC is tasked to oversee the periodic performance evaluation of the Board, its committees and the executive management, among others, the Company will conduct a performance evaluation meeting to make sure that a Director is capable of fulfilling and has been adequately carrying out his duties and responsibilities as such.

In 2019, the Committee conducted three (3) meetings attended to by majority of its members, including the Chairman, as shown in the table below:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Florencia G. Tarriela	05/07/2019	3	3	100	6 years
Member (ED)	Michael G. Tan	05/07/2019	3	2	67	6 years
Member (NED)	Lucio K. Tan, Jr.+	05/07/2019	3	1	33	6 years
Member (ID)	Johnip G. Cua	05/07/2019	3	3	100	2 years
Member (ID)	Wilfrido E. Sanchez	05/07/2019	3	3	100	6 years

+Deceased on November 11, 2019

MANAGEMENT

For several years, the Company's brand has continued to grow and gain worldwide appreciation under the able and experienced leadership of its Chairman and CEO, Dr. Lucio C. Tan, and its President and COO, Mr. Michael G. Tan.

Both the Chairman/CEO's and the President/COO's close coordination with each other and with its directors and officers has dealt with the highly critical and sensitive issues. Throughout the years, it is without a doubt that, with the continued support and hard work of the different subsidiaries, the Company will only continue to prosper.

During the Annual Stockholders' Meeting (ASM) held last May 7, 2019, 10 out of 11 Directors attended, as shown in the table below:

Name	Present	Absent
Lucio C. Tan	✓	
Carmen K. Tan	✓	
Harry C. Tan	✓	
Michael G. Tan	✓	
Lucio K. Tan, Jr.+	✓	
Vivienne K. Tan	✓	
Juanita T. Tan Lee	✓	
Johnip G. Cua	✓	
Mary G. Ng		✓
Wilfrido E. Sanchez	✓	
Florencia G. Tarriela	✓	

+Deceased on November 11, 2019

TRAINING OF DIRECTORS

The SEC Memorandum Circular No. 20, series of 2013 requires that the officers and directors of the Company attend the Corporate Governance seminars conducted by the different SEC-accredited institutions within the year to keep themselves up-to-date with the current trends and necessities of being globally competitive.

On July 29, 2019, the Company conducted a Group-wide Corporate Governance Seminar for all companies under the Lucio Tan Group at the Grand Ballroom of Century Park Hotel Manila with SGV & Co. as its service provider. The seminar was attended by all the Directors, Officers and essential employees of the Group. Among the attendees are as follows:

Board of Directors

Dr. Lucio C. Tan
Carmen K. Tan
Harry C. Tan
Michael G. Tan
Lucio K. Tan, Jr.+
Vivienne K. Tan
Juanita T. Tan Lee
Johnip G. Cua
Mary G. Ng
Wilfrido E. Sanchez
Florencia G. Tarriela

Board Advisor

Peter Y. Ong

Officers

Ma. Cecilia L. Pesayco – *Corporate Secretary*
Marivic T. Moya – *Assistant Corporate Secretary and Compliance Officer*
Jose Gabriel D. Olives – *Chief Financial Officer and Chief Risk Officer*
Nestor C. Mendones – *Deputy Chief Financial Officer*
Dioscoro Teodorico L. Lim – *Chief Audit Executive*
Erwin C. Go – *Chief Legal Counsel*

CORPORATE GOVERNANCE REPORT

DISCLOSURE AND TRANSPARENCY
UNSTRUCTURED DISCLOSURES

In 2019, the Company made the following disclosures to the SEC and the Philippine Stock Exchange (PSE) which disclosures were subsequently uploaded in its website for proper and efficient dissemination of information to its Stockholders:

- Clarification of News Report: "Tanduay eyes Central Azucarera Don Pedro" dated March 18, 2019
- Press Release: "LTG's Net Income for 2018 at Php16.19 Billion" dated March 18, 2019
- Declaration of Regular and Special Cash Dividends dated April 10, 2019
- Press Release: "LT Group looks to a better 2019, but will not be an easy task" dated May 07, 2019
- Press Release: "LTG's Income for the First Quarter of 2019 Increased by 22% to Php4.42 Billion" dated May 10, 2019
- Clarification of News Report: "LT Group plans $1.5-B LNG plant" dated June 17, 2019
- Amendment of By-Laws: "Approval of the Amendment of Articles IX and X to restore the position of Vice Chairman" dated June 18, 2019
- Clarification of News Report: "Absolut in talks with MVP to build waste-to-energy facility" dated June 19, 2019
- Statement of Changes in Beneficial Ownership of Securities dated July 08, 2019
- Change in Shareholdings of Directors and Principal Officers dated July 08, 2019
- Change in Directors and/or Officers: Appointment of Mr. Jose Gabriel D. Olives as Chief Risk Officer dated July 09, 2019
- Clarification of News Report: "Roxas agrees to sell sugar mill to Tanduay" dated August 02, 2019
- Press Release: "LTG's Attributable Net Income of Php9.24 Billion for the First Half of 2019 is 3% Higher than 1H18" dated August 13, 2019
- Statement of Changes in Beneficial Ownership of Securities dated August 30, 2019
- Change in Shareholdings of Directors and Principal Officers dated August 30, 2019
- Change in Directors and/or Officers: Death of Mr. Lucio K. Tan, Jr. dated November 11, 2019
- Press Release: "LTG's 9M19 Attributable Net Income at Php14.72 Billion, 17% Higher than 9M18" dated November 13, 2019
- Change in Directors and/or Officers: Appointment of Mr. Lucio C. Tan III as Director dated December 17, 2019

DISCLOSURE AND TIMING

As a publicly listed corporation, it is the responsibility of the Company to religiously comply with the rules and regulations of the SEC and PSE to make sure that the investing public is immediately informed of any material information relating to or affecting the Company.

Therefore, as part of good corporate governance, the Company files with the SEC, immediately after approval or confirmation by the Board, any material information, actions or decisions which may or might affect the Company. These submissions are subsequently disclosed to the PSE and thereafter uploaded in the Company website at www.ltg.com.ph for immediate dissemination of information to its Stockholders and the investing public.

For the past years, it has been Company practice and policy to immediately, and when necessary, disclose its financial condition, investments and acquisitions, if any. The disclosures would include the uploading in the Company's website within five (5) days from the date of the ASM the Minutes thereof and the Audited Financial Statements (SEC Form 17-A) for the year which should be submitted to the SEC and PSE at least two (2) months before the ASM is held.

In 2020, the Company's Audited Financial Statement was submitted to the SEC and the PSE on March 20, 2020, at least 41 days before the ASM.

The interim and quarterly financial statements and results of operations are likewise submitted to the regulators within the prescribed period of 45 days from the end of the financial period. Throughout the year, analysts' briefings are regularly conducted by the Company to allow the public access to the periodic financial statements relative to the stock market. During these briefings, it is necessary that members of the Management be present to answer any questions raised by the analysts.

All necessary disclosures are uploaded in the Company website as soon as information becomes available.

OWNERSHIP STRUCTURE

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

Title of Class	Name of Record Owner	Citizenship	No. of Shares	Percent of Class
Common	Tangent Holdings Corporation	Filipino	8,046,318,193	74.36%
Common	PCD Nominee Corporation	Non-Filipino	1,320,749,751	12.20%

BOARD REMUNERATION
COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

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

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

SUMMARY COMPENSATION TABLE: ANNUAL COMPENSATION

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

*Others – includes per diem of directors

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

Dr. Lucio C. Tan is the Chairman of the Board of Directors and CEO.
Mr. Michael G. Tan is the President and COO.
Atty. Ma. Cecilia L. Pesayco is the Corporate Secretary.
Ms. Juanita T. Tan Lee is the Treasurer.

EXTERNAL AUDITOR

The Company maintains the services of the auditing firm of SGV & Co. with Martin C. Guantes as the partner-in-charge, as its external auditor since the year 2016. Since their engagement, the External Auditors have consistently provided the Company with latest updates on the latest circulars, rulings or revenue regulations from the Bureau of Internal Revenue, as well as updates on Philippine Financial Reporting Standards for the entire group of companies.

AUDIT AND OTHER FEES

The Company incurred audit fees of Php1,200,000 for the year 2019, Php300,000 less than that of last year's (2018) audit fees at Php1,500,000. For its quarterly review of financial statements for the years 2019 and 2018, the Company incurred nil and Php1,100,000, respectively.

DEALINGS IN SECURITIES

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

As provided in the table below, the following are the current shares held by its Directors:

Name	Direct shares As of end-2018	Direct shares As of end-2019	Indirect shares / Through (name of record owner)	% of Capital Stock
Lucio C. Tan	2,200	2,200	NIL	-
Carmen K. Tan	2,200	2,200	NIL	-
Harry C. Tan	3,300	3,300	NIL	-
Michael G. Tan	1,100	146,100	NIL	-
Lucio K. Tan, Jr.*	1,100	N.A.	NIL	-
Lucio C. Tan III	N.A.	1,100	NIL	-
Vivienne K. Tan	N.A.	1,000	NIL	-
Juanita T. Tan Lee	1,100	1,100	NIL	-
Johnip G. Cua	1,000	1,000	NIL	-
Mary G. Ng	N.A.	1,000	NIL	-
Wilfrido E. Sanchez	1,000	1,000	NIL	-
Florencia G. Tarriela	1,000	1,000	NIL	-
TOTAL	14,000	161,000	NIL	-

*Deceased on November 11, 2019

TRADING BLACKOUTS

The Company strictly implements the Blackout Period by timely and constantly reminding its directors, officers, advisers, consultants and employees who may have knowledge on material facts regarding matters which may affect the Company, through electronic mail and during board meetings, that they are prohibited from trading on the Company's shares within the Blackout Period.

Under the Company policy, Blackout Periods are observed during the following: (1) for quarterly reports, two weeks before disclosure; and (2) for the year-end financials, one month or 30 days before disclosure.

Due to the constant reminder of the Corporate Secretary and the discipline and coordination of the persons within the Group, there were no reported instances of any insider trading within the Company in 2019.

RIGHTS OF STOCKHOLDERS

It is a fact that a smart investor is one who makes the necessary research, study and analysis before jumping into any investment decision since investments tend to make one feel intimidated and overwhelmed, especially when the establishment in which he will invest in does not have a good reputation.

This is where the benefits of having a good corporate governance comes in. When a corporation is fair and transparent to the investing public and respects the rights of its Stockholders, the investing public becomes more trusting and such company becomes more attractive in the eyes of investors.

With that in mind, the Company encourages Stockholders to participate in its business endeavors within and outside the ASM. They are allowed to raise any concerns or give suggestions as to how the Company may improve.

Some of the rights a Stockholder may exercise are as follows:

RIGHT TO PARTICIPATE

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

As Company practice and in compliance with the recommendations for good corporate governance, the Stockholders are sent Notices to the Annual and Special Stockholders' Meeting with sufficient and relevant information, at least 30 days before the meetings, to encourage them to personally attend the same. They are reminded that should they be unavailable to personally attend the same, they shall have the right to appoint a proxy, in which case, they are informed of the proper procedure on how to appoint one.

RIGHT TO VOTE

In accordance with the Corporation Code, the Company grants the Stockholders the right to vote on corporate acts of fundamental importance, such as, but shall not be limited to the election, removal and replacement of Directors and the changes or amendments made to the Company's Articles of Incorporation and By-Laws.

Nevertheless, matters submitted to a vote at the ASM, except the election of Directors and such other matters where the law requires a different threshold for approval, shall require the affirmative vote of at least a majority of the Stockholders present in person or by proxy during the said meeting.

RIGHT TO INSPECT OR EXAMINE CORPORATE RECORDS

All Stockholders shall have the right to inspect corporate books and records, including minutes of Board meetings, stock registries, annual reports and financial statements, provided that a written notice is sent to the Corporate Secretary by a Stockholder who has not improperly used any information secured through any previous examination of records of the Company before he is allowed to exercise such right.

RIGHT TO INFORMATION

Stockholders and the investing public are allowed immediate access to Company information through its website, www.ltg.com.ph. While minority Stockholders are furnished, on a timely and regular basis, with relevant information as may be required by law.

RIGHT TO DIVIDENDS

The Company declares dividends and the Stockholders shall have the right to receive dividends out of the Unrestricted Retained Earnings of the Company when its earnings become in excess of 100% of its Paid-in Capital Stock, except:

(a) When justified by definite corporate expansion projects or programs approved by the Board;

(b) When the Company is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or

(c) When it can be clearly shown that such retention is necessary under special circumstances in obtaining in the Company, such as when there is a need for special reserve for probable contingencies.

APPRAISAL RIGHT

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

STAKEHOLDERS RELATIONS

For many years, the Company has operated in a way as to ensure its stockholders, employees, customers and trade partners, including itself, would feel secure in their own rights. Thus, it is necessary that all decisions and transactions made by either parties be done with fairness and integrity.

To show its sincerity, the Company included in its vision and mission all its partners, ensuring that in all its business decisions, their partners will share its success and likewise benefit from its growth.

STOCKHOLDERS' MEETING AND VOTING PROCEDURES

As part of Company practice, and in compliance with the recommendations of the SEC, the Stockholders receive a copy of the Notice of the Stockholders' Meeting at least 30 days prior to the date set for the said meeting.

In 2019, the Management sent the necessary Notices to the Stockholders beginning April 2, 2019 or more than 30 days prior to the meeting set on May 7, 2019.

To allow the Stockholders the opportunity to be informed of the actions and decisions made by the Company within the year, among others, the Notices sent to the Stockholders include the Agenda for the meeting. Moreover, as recommended by the SEC, a statement explaining that a Stockholder is allowed a Proxy should he/she be unavailable to personally attend the Meeting and the process for its application is included in said Notice.

To ensure that the Stockholders are properly informed of the status and actions of the Company, are given the opportunity to evaluate the performance of the Board and of Management, and are able to ask questions pertaining to the Company, a copy of the Definitive Information Statement is attached to the Notices sent to them.

Moreover, in proposing nominees to the Board, the Stockholders are encouraged to send their list to the office of the Corporate Secretary for proper consideration by the Nomination and Compensation Committee prior to its meeting held not later than the end of April. Each outstanding common share entitles the registered Stockholders to one (1) vote.

DIVIDENDS

In 2019, the Company declared and distributed Regular Cash Dividend of Php0.15 per share and Special Cash Dividend of Php0.15 per share to all its Stockholders as of April 29, 2019, in compliance with a 20% dividend payout policy.

Further to its pursuit of good corporate governance, the Company strictly implements its dividend policy to distribute the Dividends within 30 days from the time it is approved and declared, and the Stockholders were paid on May 9, 2019, twenty-nine (29) days after it was approved by the Board and disclosed to the PSE.

EMPLOYEE RELATIONS

"To win in the marketplace, you must first win in the workplace."

– Doug Conant, CEO of Campbell's Soup.

It is a fact that when employees have a good relationship with the company where they are employed, they tend to produce better outputs. Hence, the Company makes sure to include the safety, welfare and career development of its employees in its operations, knowing that it is also for its benefit when its employees feel secured and appreciated. Open lines of communications, wide health insurance for its employees, as well as their children and beneficiaries, and scholarship opportunities are likewise provided for by the Company.

Aside from all these, the Code of Business Conduct and Ethics, with emphasis on the "Whistle-Blower Policy", is strictly observed and implemented all throughout the Company, including its subsidiaries so as to protect itself, its partners and employees from any possible yet unforeseen harm or damage.

INVESTOR RELATIONS

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

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

In 2019, LTG attended seven (7) conferences with four (4) different brokers in Manila (2), Singapore (4) and Hong Kong (1). The Company accommodates requests for visits to its subsidiaries' facilities from groups of sell-side and buy-side analysts. However, in 2019, there were no requests.

During the 2019 calendar year, LTG conducted four (4) Analysts' Briefings jointly with subsidiary Philippine National Bank (PNB) that were attended by analysts from different brokerages and analysts of local and foreign funds.

- Full Year 2018 Results on March 18, 2019
- First Quarter 2019 Results on May 10, 2019
- First Half 2019 Results on August 13, 2019
- Nine Months 2019 Results on November 13, 2019

The briefing for Full Year 2019 Results was cancelled as the Government declared an Enhanced Community Quarantine in Metro Manila starting March 17, 2020 due to the coronavirus disease 2019 pandemic. LTG disclosed Full Year 2019 Results on March 19, 2020 and distributed what should have been the presentation materials via email and WhatsApp.

LTG disclosed the schedule of these briefings to the PSE at least a week before the briefing date.

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

After the Annual Stockholders' Meeting on May 7, 2019, a press briefing was conducted where members of the media had access to the President and Chief Operating Officer, as well as the Chief Financial Officer.

PMFTC President Denis Gorkun hands over the annual donation to TYKFI Chairman Dr. Lucio C. Tan and Trustee Carmen K. Tan

Tan Yan Kee Foundation, Inc.

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

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

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

EDUCATION

St. Teresita's Academy Scholars from Farming Families

TYKFI has 150 scholars from grades 7 to 12 in Sta. Teresita's Academy in Aritao, Nueva Vizcaya.

Brigada Eskwela 2019

TYKFI donated materials to repair three classrooms at the Nagtenga Elementary School in Sta. Cruz, Ilocos Sur.

Basic Cosmetology Training: Ganda Mo, Hanapbuhay Ko (Your Beauty, My Livelihood)

In February, housewives from farming communities in the towns of Kayapa and Sta. Fe, Nueva Vizcaya and Sta. Cruz, Ilocos Sur attended basic cosmetology training in partnership with Ang Hortaleza Foundation.

University of the East (UE) – TYKFI Scholarship Program

For school year 2019-2020, the UE-TYKFI scholarship program has 123 scholars, including 47 new scholars. TYKFI Chairman Dr. Lucio C. Tan welcomed the students and their parents during the annual Scholars' Recognition Day on August 20, 2019.

UE-Tan Yan Kee Scholarship Program

HEALTH SERVICES

Asia Brewery Monthly Medical Forum

TYKFI continues to hold the monthly Asia Brewery Medical Forum in cooperation with the Association of Asia Brewery Medical Specialty Scholars. These forums provide the public with better health information as well as information on the latest treatment options. Some of the topics discussed in 2019 include eye conditions, gastrointestinal tract, common childhood diseases, kidneys and women's health. Doctors who are Asia Brewery Medical Scholars also provided free consultations during the forums.

TYKFI-Asia Brewery, Inc. (ABI) Medical Specialty Scholarship Program

Dr. Andrei Paolo S. Angbue-Te

Dr. Andrei Paolo S. Angbue-Te completed a year of Oculoplastic training at the Tan Tock Seng Hospital in Singapore.

Dr. Noruel Gerard A. Salvador completed his fellowship training on Hepato-Pancreato-Bilary Surgery and Liver Transplantation at Kaohsiung Chang Gung Memorial Hospital in Kaohsiung City, Taiwan.

Dr. Janet Wenceslao-Elcano finished her one-year training in Electrophysiology at the Yonsei University Health System in Seoul, South Korea.

Dr. Rosemarylin L. Or completed a two-year clinical fellowship in Neuro-Oncology at the University of Toronto-Princess Margaret Cancer Center in Canada.

Dr. Noruel Gerard A. Salvador

Dr. Janet Wenceslao-Elcano

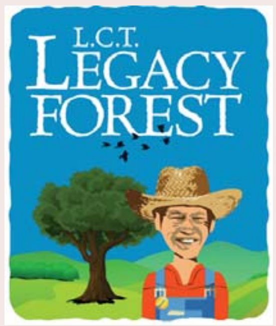
Dr. Giselle L. Gotamco completed a one-year fellowship on Neuro-Otology and Audiology at the Taichung Tzu Chi General Hospital.

SOCIAL WELFARE

Training in Good Governance and Solid Waste Management

In April, TYKFI sponsored the training of seven local government officials and six teachers on good governance and solid waste management. The training was conducted along a boardwalk in Boracay where TYKFI has a *Roots for Boracay Project* in partnership with Tanduay Distillers, Inc., the Department of Environment and Natural Resources and the local government of Barangay Manoc-Manoc. Aside from a clean-up drive where almost 50 sacks of garbage was collected, the participants also planted api-api, a local mangrove species.

ENVIRONMENT



The Lucio C. Tan Legacy Forest Project

Started in 2014, over 600 hectares have been planted in the University of the Philippines' (UP) Land Grant in Laguna and Quezon while close to 300 hectares were planted in Carranglan, Nueva Ecija. Aside from providing indigenous people jobs by planting trees, the project also provides livelihood training programs by teaching scientific ways of producing vegetables (including organic) and ornamental plants.

In April 2019, more than 150 students from the UP – Los Baños visited the project's Nueva Ecija site and learned about the goals, experiences and sustainability efforts of the project.

On its fifth year, the project has covered 787 hectares of the 930 hectares earmarked for reforestation and protection in Barangay R.A. Padilla, Carranglan, Nueva Ecija. In 2019, 198,040 seedlings were grown, ready for planting during the rainy season of the next year.

ASIA BREWERY, INC.

Bantay Bata Community Outreach Program

On February 23, 2019, Asia Brewery, Inc. (ABI) and subsidiaries joined the Community Outreach Program (COP) initiated by Bantay Bata 163 Laguna Chapter at Southville IV National High School in Sta. Rosa, Laguna. The COP catered 150 families of three or 450 individuals. Part of this COP was a medical mission, parenting seminar, children's advocacy games and gift giving. ABI donated a total of 142 boxes of ABI products such as Absolute, Nestea, Vitamilk and Creamy Delight.

Brigada and Balik Eskwela Donation Drive

This is an annual activity wherein ABI donates products like Absolute, Creamy Delight, Nestea, Cobra and Vitamilk to students of selected schools. During the May 2019 Brigada Eskwela, ABI donated to 9 schools located in Cabuyao (5) and Sta. Rosa (3), Laguna, and in Alabang (1).

Also, on August 20, 2019 during Disaster Resilience Month, an ABI's Environment, Health and Safety (EHS) Team representative conducted a discussion with the students on preparedness for fire, earthquake, typhoon and floods. ABI products were also given along with umbrellas, raincoats and hygiene products.

Clean-up Activities

On February 16, 2019, employees in ABI's El Salvador Plant participated in a region wide clean-up activity held in Barangay Amoros, El Salvador, Misamis Oriental. ABI also participated in the coastal clean-up in Cagayan de Oro on September 21, 2019.

Sports Tournament

On September 13, 2019, a sports festival was held in the ABI Multi-Purpose Covered Court and was attended by ABI Cabuyao, Head Office and Pasig sales office employees. The purpose of this is to develop appreciation for sportsmanship and foster camaraderie and teamwork through healthy competition among the ABI employees.

The Energy of the Community – Cabuyao Environmental Police

A half-day event for the Environmental Police was organized and sponsored by ABI subsidiary, Interbev Philippines, Inc. (IPI) on September 30, 2019. Aside from games and raffles, an ABI EHS Team representative imparted knowledge about Waste Segregation and Management to the Environmental Police. Cobra products and promotional items such as shirts and tumblers were given while some items like arm sleeves, gloves, masks, towels and boots were donated. Vital signs check-up, medicine and massage were also provided.

Vitamilk School Caravan

Vitamilk launched its advocacy, *Kalusugan Para sa Kinabukasan* to support the Department of Education and Department of Health's initiatives in promoting a culture of health and wellness in school communities participated by 100 schools in South Luzon and Central Luzon. The school caravan provides educational activities and insightful discussions to students, teachers and parents.

Education is Adaptation Program

In October 2019, Summit Natural Drinking Water partnered with World Wide Fund for Nature (WWF) Philippines to increase environmental awareness to school communities on importance of proper waste segregation. Training for teachers and program sessions were conducted at Molino Elementary School, Panipuan Elementary School and Baliti Elementary School.

Summit Partnership with Philippine Olympic Committee (POC)

Since 2016, Summit Natural Drinking Water has been supporting the Philippine Olympic Committee (POC) and providing Filipino athletes with proper hydration. In 2019, Summit provided Php500,000 worth of product support.

To further extend support, Summit launched the "Thirst For The Win" campaign with national athlete Hidilyn Diaz as the face of Summit's official campaign, as a way to rally support for the National Athletes for the 30th Southeast Asian Games held in December 2019.

Absolute Mommy Welfare Month

This is an annual activity where ABI's Absolute Distilled Drinking Water supports first-time mothers and their newborns as they go through postnatal care and wellness. This year, ABI partnered with 32 hospitals and institutions in Luzon and the Visayas and distributed 3,500 mommy wellness kits.

Help Flows for Mindanao Earthquake Victims

In September 2019, a strong earthquake hit the parts of Mindanao. ABI, through disaster relief partners such as the Philippine Red Cross and television networks distributed Absolute bottled water to the affected areas. Meanwhile, in November 2019, an Agua Vida Mobile Water Station was deployed to Kidapawan where people were provided access to clean and potable water.

ABI's Other CSR Programs

On June 13, 2019, ABI was invited by the Children's Joy Foundation Inc. (CJFI) for a Dinner for a Cause held at a Chinese restaurant in Calamba City, Laguna. The said event was to raise money to help the foundation's goal to send 3 million children to school.

Meanwhile, on July 27, ABI subsidiary, AB Nutribev Corp. was a sponsor of CJFI's Nutrition Month celebration with the theme *Kumain ng Wasto at Maging Aktibo, Push Natin 'To!* in Canlubang and Calamba, Laguna where Vitamilk and other ABI products were given aside from the hygiene kits and snacks.

On September 20, 2019, as part of Grandparents' Month Celebration, ABI participated in the "Share Pure Love with the Most Absolute Grandparents" program at Bahay ni Maria in Calamba and Mary Mother of Mercy Home for the Abandoned Elderly and Children with Special Needs in San Pedro, Laguna. ABI products and individual hygiene kits were distributed. The two institutions were also given a month's supply of Absolute Water, home supplies and grocery items.

Recognition for CSR Activities

In 2019, ABI was recognized by several institutions for its support and commitment in Community Relations Program. One such recognition was on August 8, 2019 from the Armed Forces of the Philippines (AFP) – Office of Chief Dental Service recognized ABI's generous support rendered during the AFP Dental Service Fun Run, AFP Dental Service Sports Fest, AFP Dental Service First Anniversary Ball and 65th AFP Dental Service Founding Anniversary.

CORPORATE SOCIAL RESPONSIBILITY

BANNER YEAR

ETON PROPERTIES PHILIPPINES, INC.

Eton and TYKFI launch Masaganang Palayan (Prosperous Ricefield)

In December, Eton and TYKFI launched the *Masaganang Palayan Project* where free rice seeds and fertilizer were given to 18 farmers in Comon and Tabueng Aritao, Nueva Vizcaya. Each farmer received three to five sacks of hybrid seeds.

Permanent Housing for Families of TYKFI Scholars

Eton sponsored housing units for indigent families of farmers in Aritao and Sta. Fe, Nueva Vizcaya. The donation was coursed through TYKFI. In July, four families, with children who are scholars of TYKFI at the Saint Teresita's Academy, received their new houses from Eton.

PMFTC INC.

Multi-Purpose shelter and Fish Dryers for Fisherfolk in Batanes

On May 27, 2019, PMFTC turned over to the Batanes Local Government Unit the multi-purpose shelter and fish dryers in Mavulis Island for the use of the Ivatan fisherfolk.

Livelihood Project on Salted Egg Production

On October 18, 2019, ten women of Buhanginan, Nagcarlan in the province of Laguna, received training and starter kits on salted egg production. Their produce from their small-scale business is purchased by local fast food chains.

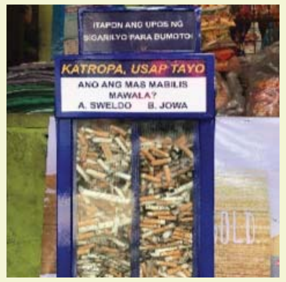
Livelihood Project for Indigenous People in Batiawan, Zambales

In September 2019, the Samahang Mangagawa at Mambubukid ng Barangay Batiawan (Organization of Workers and Farmers of Barangay Batiawan), a local organization of farmers from indigenous peoples, received goats from PMFTC for their livelihood. This benefited 100 families.

Training on Sustainable Fishing Techniques and Fishing Boats

Thirty fishermen from Marantao, in the Province of Lanao del Sur, who were displaced by the Marawi Seige, received training on fish production and sustainable fishing techniques, fish processing and environmental production. Materials needed to build non-motorized boats were given and the boats were awarded to the fishermen in October 2019.

Refurbished Classrooms in Tawi-Tawi



In April 2019, PMFTC's CSR Program, Embrace, together with Joint Task Force-Tawi-Tawi, Marine Battalion Landing Team-9 and the 39th Marine Company refurbished classrooms in the Datu Dawila Primary School, located in the farthest sitio (part of a barangay, the smallest administrative unit) of Sitangkal in the Province of Tawi-Tawi. The classrooms were painted and windows, ceilings, roofs, fence and blackboards were repaired. This benefited 142 school children and 5 teachers.

Mingo Meals

On November 28, 2019, PMFTC in partnership with the Negrense Volunteers for Change Foundation, Inc. (NVC), started a supplemental feeding program for 400 children in the Municipality of Carles in Iloilo Province. NVC manufactures Mingo meals, a nutritious instant complementary food made of rice, mung beans and moringa. Mingo meals provides nutritional support and help the children reach normal nutritional status. Children enrolled in the program are weighed at the start and are monitored monthly throughout the program's duration. Field officers teach parents the importance of proper nutrition, give instructions for preparing Mingo and also go house-to-house to check on the beneficiaries.

Educational Materials for School in Zamboanga

In October 2019, PMFTC donated educational materials and conducted a short training on hygiene to 124 students on Simariki, a small island a few minutes by boat from the center of Zamboanga City. This was one of the places where the Zamboanga Siege in September 2013 took place.

Disaster Relief

In November 2019, PMFTC provided relief assistance to victims of earthquakes. In the northern province of Batanes, 3,200 individuals were given aid, while in different parts of Mindanao, 22,568 individuals were helped.

World Clean-Up Day

On September 21-22, 2019, 247 employees of PMFTC participated in the World Clean-Up Day in Taguig City (Metro Manila), Cebu City and Cagayan de Oro City. A total of 62,078 kilograms of litter was collected.

Global Equal Salary Certification

In 2019, Philip Morris International became the first multinational consumer goods company to be awarded the distinction of not having gender-based bias in terms of salary distribution. PMFTC got its certification in 2019.

PHILIPPINE NATIONAL BANK

Sustainable Lifestyle Fair

A three-day eco-bazaar featuring sustainably sourced products and organic food items was held on November 23 to 25, 2019 at the Head Office premises. Sessions on climate change and resilient communities, zero waste lifestyle and environment-conscious living were also provided.

Financial Literacy and Financial Wellness Seminars

In June, August, May, September, October and November, the Bank conducted Financial Literacy Seminars for students, teachers, parents and Overseas Filipino Workers (OFWs). The participants were taught the basics of money management, specifically identifying needs and wants, budgeting, spending and saving where applicable bank products and services were also presented. These were conducted in various parts of Metro Manila, Cainta, Rizal. Meanwhile, Financial Wellness Seminars were conducted for corporate clients in Iloilo and OFWs in Japan and Singapore.

On October 24, 2019, a seminar on Financial Literacy was conducted for 20 members of the Barangay Association of Treasurers of the Municipality of Aritao in Nueva Vizcaya. This was conducted in cooperation with the Tan Yan Kee Foundation, Inc.

Partnership with Philippine Red Cross

PNB partnered with the Philippine Red Cross for the training of employees on Standard First Aid and Basic Life Support, as well as on Disaster Preparedness. In October, PNB donated Php5 million to Red Cross for two ambulances in Visayas and Mindanao.

Scholarships for Ateneo de Manila University

In November, PNB donated Php5 million to the Gov. Amando M. Tetangco Scholarship Fund of the Ateneo Scholarship Foundation, Inc. This is to support the education of in-need students taking business-related courses at the Ateneo de Manila University.

Donation of Decommissioned Desktop PCs

In April and December, PNB donated 170 decommissioned Desktop Personal Computers to ACTION, Inc. in Olongapo City, H.O.U.S.E. Foundation and the Pentecostal Missionary of Christ in Cainta, Rizal.

ACTION (A Child's Trust is Ours to Nurture) is an organization that provides educational materials for children and facilitates scholarship programs for impoverished communities in Zambales Province in Central Luzon. H.O.U.S.E (Helping OUrselves through Sustainable Enterprises) educates, employs and empowers at risk youth to give them a second start in life.

Relief Operations for Mindanao Earthquake Victims

On December 21, 2019, PNB and TYKFI conducted relief operations for victims of the earthquakes in Digos City, Davao del Sur and Kidapawan City in North Cotabato. Around a thousand families were given assistance.

Meanwhile, the bank launched "A Boxful of Love" in November, a call for in-kind donations from bank employees for the victims of the Mindanao earthquake.

Fitness Program and Health Bulletins

At PNB's Head Office, physical fitness activities are offered to employees year-round. These include Mixed Martial Arts, Dance and Pilates, Yoga and Zumba.

Moreover, monthly email blasts are sent to employees to increase health awareness, share tips and encourage employees to live a healthy lifestyle.

In November, a one-day holistic fair was held at the Head Office where topics on physical, social, spiritual and financial health were discussed. This was participated by over 50 employees.

TANDUAY DISTILLERS, INC.

River Clean-Ups

On April 26, 2019, employees of the Cabuyao, Laguna plant participated in the clean-up of the Salanglanka River, in Cabuyao, Laguna, with the Cabuyao River Protection Advocates (CaRPA) and the City Environment and Natural Resources Office (CENRO).

On June 28, 2019, TDI employees from the Cabuyao plant again participated in a similar activity, for the Banlic River. An environment awareness lecture was conducted.

Lecture on Environment Preservation

TDI sponsored a lecture on the effects of environment preservation and degradation of livelihood in October for farmers, fishermen and local government officials in Barangay Mamatid in Cabuyao, Laguna. Around 35 people attended the lecture.

Zumba for Workers' Health and Wellness

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

Lecture on Cardiovascular Diseases

In August 2019, TDI's Cabuyao plant had a lecture on cardiovascular diseases and stress and stress management. 25 persons attended.

Adopt-an-Estero (Estuary)

TDI's Murcia, Negros Occidental plant conducts a quarterly clean-up of its adopted Cabungan-an Creek. In 2019, the clean-ups were conducted on March 24, June 23, September 29 and November 30.

Meanwhile, in January, Absolut Distillers, Inc. had a clean-up activity of the Palico-Lian River in the Province of Batangas.

TANDUAY DISTILLERS, INC.

Voluntary Bloodletting

On December 16, 2019, 21 employees of TDI's plant in Murcia, Negros Occidental donated blood for the Corazon Locsin Montelibano Memorial Regional hospital. This was in participation with the Coast Guard.

Program for Fisherfolk

On August 6, 2019, Absolut Distillers, Inc. provided livelihood assistance to fishermen working along the Palico – Lian River in Barangay Bucana, Nasugbu, Batangas.

Sports Development Program

TDI and Absolut Distillers, Inc. sponsor basketball teams in Lian and other towns.

Area Clean-Up

Employees of TDI's El Salvador Plant in Misamis Oriental conducted a clean-up round the plant's vicinity on September 20, 2019. They were able to collect 8 bags or 92 kilograms of trash.

Brigada Eskwela

For the Brigada Eskwela activities in May at the Malaruhatan Elementary School and Lian National High School in Batangas, Absolut Distillers, Inc. donated cleaning materials, brooms, rags, garbage bags and paint. Employees also joined in cleaning.

Lian Town Fiesta, Beauty Pageant

TDI subsidiary, Absolut Distillers, Inc. donated and installed banderitas (small flags strung up during fiestas) and paid for a band during the June 24, 2019 fiesta of Lian town in Batangas.

In April 2019, the Company sponsored the town's beauty pageant.

License to Own and Possess Firearms (LTOPF) Caravan

Some staff of Absolut Distillers, Inc. helped during the 2-day event in September, in cooperation with the Philippine National Police (PNP) and the local government unit of Lian, Batangas. Some equipment owned by Absolut Distillers, Inc. were also used during the event.

Tilapia Fingerlings

Ten thousand tilapia fingerlings were dispersed in the Palico Lian River in Batangas on September 25, 2019. This was a project of Absolut Distillers, Inc. and government agencies – the Bureau of Fisheries and Aquatic Resources Region 4-A, City Environment and Natural Resources Office (CENRO) of Calaca, the Lian local government unit (LGU) and Municipality Environment and Natural Resources Office (MENRO).

Christmas Gift Giving

Seventy bags of foodstuff were distributed to residents near the plant.

On the Job Training (OJT)

Absolut Distillers, Inc. allows students from various schools to get OJT. Partner schools are the Nicolites Montessori School, Lian Senior High School, Lian Institute, STI Balayan Campus, Batangas State University, Technological Institute of the Philippines, Adamson University and the University of Negros Occidental Recoletos.

Perimeter Fence for Police Station

Absolut Distillers, Inc. provided materials and manpower for the construction of the perimeter fence around the Lian Municipal Police Station. It was completed on November 4, 2019.

Plant Tours for Students

Students from Adamson University, Bicol University, University of the Philippines (UP) - Diliman Campus, ALCHEMES (organization of chemical engineering majors), BIOTECH (organization of molecular biology and biotechnology students) and the Philippine Institute of Chemical Engineers (PiChe) have visited Absolut Distillers, Inc. to broaden their knowledge and see the actual application of what they learn in school.

ASIA BREWERY, INC.

Cabuyao River Protection Advocates (CaRPA) Activities

Cabuyao River Protection Advocates (CaRPA) is a multi-sectoral group, with a representative of ABI currently as President. As an active member, ABI aims to protect the rivers within the Cabuyao area where ABI's effluents are discharged.

On April 26, 2019, CaRPA conducted a clean-up, dredging and desilting of Tiwaytiway-Salanglanka River, one of the most economically significant rivers in Cabuyao. A community clean-up was also conducted on June 28, 2019 which was followed by an environmental education program on proper waste management, water scarcity, household sanitation and hygiene for the local community. On August 20, 2019, CaRPA held a Lakbay Aral-Benchmarking Activity at the Pasig River Rehabilitation Commission.

Environment, Health and Safety (EHS) Summit 2019

In line with the Company's goal of instilling and strengthening an EHS culture of all plants, EHS Summit 2019 was arranged. EHS Summit with this year's theme *"Go the Extra Mile: Taking EHS Beyond Compliance"* was successfully celebrated last September 24-27, 2019 at ABI Complex, Cabuyao Plant.

The EHS Summit was participated widely by all EHS Officers from ABI-Cabuyao, IPI-Cabuyao, ABI-Sta. Rosa, PWI, ABN, ABI-El Salvador, IPI-Davao, and IPI-Pampanga plants.

Plant Clean-up Drive Activities

On September 7, 2019, ABI conducted a cleaning activity of the Bottled Water Plant 2 Areas in Barangay Malitlit, Sta. Rosa City. On October 19, 2019, cleaning and segregation of accumulated waste outside the plant was conducted.

Department of Energy Sustainable Education and Public Awareness (SEPA)

On October 4, 2019, ABI employees attended the training conducted by Department of Energy on updates on the development program of the country's downstream natural gas industry and awareness campaign on natural gas being a new sector in energy. This promotes continuous learning and improvement among ABI employees.

PMFTC INC.

Reduction of C02 Emissions with Equipment Efficiency and Change of Energy Source

At the PMFTC Batangas plant. four two-ton modular boiler were installed that will maintain operating efficiency of 95% at any given demand from production. This will reduce C02 emissions by 606 tons annually.

Meanwhile at the Marikina plant, the coal-fired boiler was decommissioned and replaced by a fuel-fired boiler. This will reduce C02 emissions by 334 tons annually.

Coal-Fired Boiler

Fuel-Fired Boiler

Elimination of Single Use Plastic

At the Batangas and Marikina Plants, PMFTC is on the road to the elimination of single-use plastic waste in these facilities. Activities include the implementation of the EcoBricks Program, raising awareness on the impact of single-use plastic and the phase-out of single-use plastic.

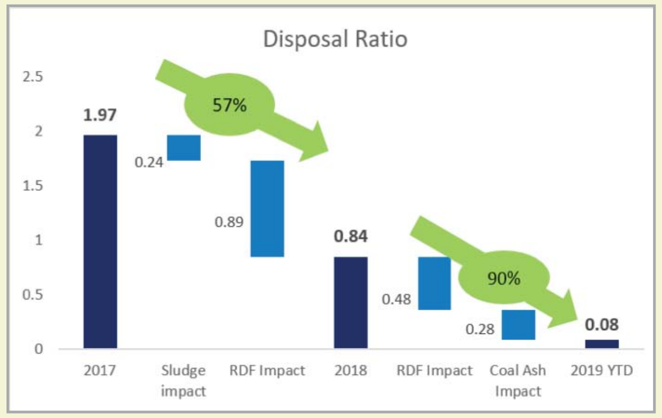
We Care: Mission Zero Level Up, I-Care, 1001 Small Interventions

PMFTC has an ongoing program in its plants where the aim is to achieve a culture of safety and have no incidents of accidents.

The Company also has I-Care, a behavior observation program that enables all employees to provide feedback to anyone in the organization, reminding them to always be safe.

Another program is the 1001 Small Interventions where simple yet impactful interventions are done to encourage employees to be safe all the time.

Reduction of Waste to Landfills



PMFTC has a Disposal Ratio Reduction Program where the target is to have zero non-mandated waste for landfills. These were implemented in the Marikina and Batangas factories starting 2017 where waste is composted or used for energy and has since reduced the amount of waste disposed in landfills by 90%.

Cigarette Butt Litter Collection Program

For two months in the 2nd quarter of 2019, PMFTC tested a cigarette butt litter collection program for adult smokers in two test communities in Marikina City and Quezon City, both in Metro Manila. The target is to have a nationwide expansion in 2020. The litter will be upcycled into fillers for cement or additives for energy production.

PHILIPPINE NATIONAL BANK

Green Loans

PNB has allotted Php215.2 billion for loans to eco-friendly and sustainable businesses and projects such as food manufacturing, agricultural production, water distribution and supply, energy generation and distribution, operation of toll roads and bridges, telecommunications, responsible packaging and construction of green buildings.

Energy Conservation

The Bank reduced its energy consumption by replacing conventional light fixtures to LED, reducing the number of lights turned on after office hours in parking and common areas of the head office building. At the Makati Center, the six old traditional elevators are being replaced with more energy efficient models and the conventional air conditioning units are being replaced with inverter-type units. These activities are estimated to result in electricity savings of Php6.7 million per year.

Water Conservation Initiatives

To reduce water consumption, the volume of water needed for toilet and urinal flushing was reduced; and leaking or defective pipes, fittings, valves and flushers were replaced or fixed. An estimated Php356,000 was reduced from the water consumption of the Head Office and the Makati Center in 2019.

Earth Hour

PNB donated Php50,000 to the World Wide Fund (WWF) – Philippines for the Earth Hour Kick-Off on March 30 in Circuit Makati. The Bank also initiated a call tree advisory among employees to encourage participation in the symbolic 60-minute switch off of non-essential lights and appliances in their homes.

Project PLANET (Protect, Love And Nurture the Environment Together)

This is an internal environmental awareness and carbon footprint reduction campaign among bank employees focusing on energy efficiency, water conservation, banning single-use plastic and proper waste management. The campaign was formally launched in July 2019 during the Bank's 103rd anniversary.

EDGE Certification

In August 2019, PNB initiated through the Philippine Business Coalition for Women Empowerment the road towards the EDGE (Economic Dividends for Gender Equality) Certification of the bank. The EDGE Certification is the leading global assessment methodology and business certification standard for gender equality.

TANDUAY DISTILLERS, INC.

Evaporation Plant Lessens Use of Water

The evaporation plant decreases the volume of distillery effluent by up to 80%, while the remaining product condensate can be reused in the fermentation process, lessening groundwater extraction.

Solar Panels at the Warehouse and Gym

Solar panels were installed on the roof of TDI's building in Quiapo, Manila. A total of capacity of 330 kilowatt "peak" (kWp) was installed, 232 kWp at the warehouse and 98 kWp at the gym. At 65% utilization for six hours a day, this is estimated to translate of savings of 38.6 thousand kilowatt hours per month.

LT GROUP, INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

Signed under oath by the following:

Lucio C. Tan
Chairman and Chief Executive Officer

Michael G. Tan
President and Chief Operating Officer

Jose Gabriel D. Olives
Chief Financial Officer

Signed this 10th day of March 2020.

INDEPENDENT AUDITOR'S REPORT

SGV
Building a better working world

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

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases, specifically those previously classified as operating lease arrangements where the Group is the lesssee. The Group's adoption of PFRS 16 is significant to our audit because the Group has numerous lease agreements; the recorded amounts are material to the consolidated financial statements; and the adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liabilities amounting to ₱3,091.7 million and ₱3,336.9 million, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱650.0 million and ₱229.0 million, respectively, for the year ended December 31, 2019.

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

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

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

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

Recognition of Allowance for Expected Credit Losses on Loans and Receivables

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

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

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

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

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

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

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

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

Recoverability of Deferred Tax Assets

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

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

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

Accounting for Investment in PMFTC, Inc.

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

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

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

Other Information

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

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

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

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

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

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

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

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

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

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

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

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

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

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

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

March 10, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

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

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

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

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

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(Amounts in Thousands)

Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36) — Other Comprehensive Income (Loss): Cumulative Translation Adjustments through Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect

	Capital Stock	Capital in Excess of Par	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans FVTOCI (Note 23)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Revaluation Increment on Property, Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 2, 7, 12 and 30)	Total
BALANCES AT DECEMBER 31, 2016	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**₱–**	**₱694,323**	**(₱1,971,897)**	**(₱1,581,187)**	**₱4,473,280**	**₱172,507**	**₱90,980**	**₱1,878,006**	**₱68,640,783**	**(₱12,519)**	**₱136,097,985**	**42,506,591**	**178,604,576**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	10,830,773	–	10,830,773	3,749,883	14,580,656
Other comprehensive income	–	–	–	–	–	289,555	2,343,380	646,592	–	–	54,068	3,333,595	–	–	3,333,595	744,438	4,078,033
Total comprehensive income for the year	–	–	–	–	–	289,555	2,343,380	646,592	–	–	54,068	3,333,595	10,830,773	–	14,164,368	4,494,321	18,658,689
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(1,947,850)	–	(1,947,850)	–	–
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(739,420)	(172,507)	–	(911,927)	911,927	–	–	–	–
BALANCES AT DECEMBER 31, 2017	**10,821,389**	**35,906,231**	**18,060,000**	**804,095**	**–**	**983,878**	**371,483**	**(934,595)**	**3,733,860**	**–**	**145,048**	**4,299,674**	**78,435,633**	**(12,519)**	**148,314,503**	**47,000,912**	**195,315,415**
Effect of PFRS 9 adoption in 2018	–	–	–	–	–	–	2,464,345	–	–	–	–	2,464,345	(1,178,864)	–	1,285,481	(712,042)	573,439
Effect of PFRS 15 adoption in 2018	–	–	–	–	–	–	–	–	–	–	–	–	(27,857)	–	(27,857)	(106)	(27,963)
BALANCES AT JANUARY 1, 2018	**10,821,389**	**35,906,231**	**18,060,000**	**804,095**	**–**	**983,878**	**2,835,828**	**(934,595)**	**3,733,860**	**–**	**145,048**	**6,764,019**	**77,228,912**	**(12,519)**	**149,572,127**	**46,288,764**	**195,860,891**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	16,194,778	–	16,194,778	4,363,483	20,558,261
Other comprehensive income	–	–	–	–	–	168,781	(1,153,632)	596,597	9,695,308	–	57,018	9,364,072	–	–	9,364,072	7,653,454	17,017,526
Total comprehensive income (loss) for the year	–	–	–	–	–	168,781	(1,153,632)	596,597	9,695,308	–	57,018	9,364,072	16,194,778	–	25,558,850	12,016,937	37,575,787
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(2,164,278)	–	(2,164,278)	(19,357)	(2,183,635)
Reversal of disposal group classified as held for sale	–	–	–	–	(21,893)	–	15,601	6,292	–	–	–	21,893	–	–	–	(62,655)	(62,655)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(739,502)	–	–	(739,502)	739,502	–	–	–	–
BALANCES AT DECEMBER 31, 2018	**₱10,821,389**	**₱35,906,231**	**₱18,060,000**	**₱804,095**	**(₱21,893)**	**₱1,152,659**	**₱1,697,797**	**(₱331,706)**	**₱12,689,666**	**₱–**	**₱202,066**	**₱15,410,482**	**₱91,998,914**	**(₱12,519)**	**₱172,966,699**	**₱58,223,689**	**₱231,190,388**
Reversal of disposal group classified as held for sale	–	–	–	–	21,893	–	(15,601)	(6,292)	–	–	–	(21,893)	–	–	–	–	–
BALANCES AT DECEMBER 31, 2018 AS ADJUSTED	**10,821,389**	**35,906,231**	**18,060,000**	**804,095**	**–**	**1,152,659**	**1,682,196**	**(337,998)**	**12,689,666**	**–**	**202,066**	**15,388,589**	**91,998,914**	**(12,519)**	**172,966,699**	**58,223,689**	**231,190,388**
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	–	23,117,254	–	23,117,254	4,448,233	27,565,757
Other comprehensive income (loss)	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	–	1,001,641	3,384,340	–	–	3,384,340	1,873,030	5,257,370
Total comprehensive income (loss) for the year	–	–	–	–	–	(460,107)	2,937,249	(865,709)	771,266	–	1,001,641	3,384,340	23,117,524	–	26,501,864	6,321,263	32,823,127
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(3,326,908)	–	(3,326,908)	(3,372)	(3,330,280)
Early redemption of preferred shares	–	–	(9,521,163)	–	–	–	–	–	–	–	–	–	–	–	(9,521,163)	–	(9,521,163)
Increase in noncontrolling interest without loss of control	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2,539,185	2,539,185
Other equity reserve	–	–	–	220,558	–	–	–	–	–	–	–	–	215,915	–	436,473	5,265	441,738
Effect of change in accounting policy on borrowing costs (Note 2)	–	–	–	–	–	–	–	–	–	–	–	–	(135,424)		(135,424)	–	(135,424)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(734,614)	–	–	(734,614)	734,614	–	–	–	–
BALANCES AT DECEMBER 31, 2019	**₱10,821,389**	**₱35,906,231**	**₱8,538,837**	**₱1,024,653**	**₱–**	**₱692,552**	**₱4,619,445**	**(₱1,203,707)**	**₱12,726,318**	**₱–**	**₱1,203,707**	**₱18,038,315**	**₱112,604,635**	**(₱12,519)**	**₱186,921,541**	**₱67,086,030**	**₱254,007,571**

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Corporate Information

LT Group, Inc. ("LTG" or the "Company") is a stock corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987.

On September 22, 1995, the Philippine SEC approved the change in the Company's primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as Tanduay Distillers, Inc. (TDI), a producer of distilled spirits, through a share swap with Tangent Holdings Corporation ("Tangent" or the "Parent Company"). The share swap resulted in LTG wholly owning TDI and Tangent increasing its ownership in LTG to 97.0%. The Company's primary purpose is to engage in the acquisition by purchase, exchange, assignment, gift or otherwise; and to hold, own and use for investment or otherwise; and to sell, assign, transfer, exchange, lease, let, develop, mortgage, enjoy and dispose of, any and all properties of every kind and description and wherever situated, as to and to the extent permitted by law.

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

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

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

Authorization for Issue of the Consolidated Financial Statements

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

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

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

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

Basis of Consolidation

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

	Percentage of Ownership						
	2019		2018 (Note 37)		2017		Country of Incorporation
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Distilled Spirits							
Tanduay Distillers, Inc. (TDI) and subsidiaries	**100.0**	**-**	100.0	-	100.0	-	Philippines
Absolut Distillers, Inc. (ADI)	**-**	**96.0**	-	96.0	-	96.0	Philippines
Asian Alcohol Corporation (AAC)	**-**	**95.0**	-	95.0	-	95.0	Philippines
Tanduay Brands International, Inc. (TBI)[1]	**-**	**100.0**	-	100.0	-	100.0	Philippines
Beverages							
Asia Brewery, Incorporated (ABI) and subsidiaries	**99.9**	**-**	99.9	-	99.9	-	Philippines
Agua Vida Systems, Inc.	**-**	**99.9**	-	99.9	-	99.9	Philippines
Interbev Philippines, Inc.	**-**	**99.9**	-	99.9	-	99.9	Philippines
Waterich Resources Corp.	**-**	**99.9**	-	99.9	-	99.9	Philippines
Packageworld, Inc.	**-**	**99.9**	-	99.9	-	99.9	Philippines
AB Nutribev Corp.	**-**	**99.9**	-	99.9	-	99.9	Philippines
Asia Pacific Beverage Pte. Ltd. (APB Singapore)	**-**	**99.9**	-	99.9	-	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited (APB Myanmar) [2]	**-**	**90.0**	-	90.0	-	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	**97.7**	**-**	97.7	-	97.7	-	Philippines
Fortune Tobacco Corporation (FTC)	**82.7**	**16.9**	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	**100.0**	**-**	100.0	-	100.0	-	Philippines
Paramount Landequities, Inc. (PLI) and Subsidiaries	**100.0**	**-**	100.0	-	100.0	-	Philippines
Eton Properties Philippines, Inc. (Eton)	**-**	**99.6**	-	99.6	-	99.6	Philippines
Belton Communities, Inc. (BCI)	**-**	**99.6**	-	99.6	-	99.6	Philippines
Eton City, Inc. (ECI)	**-**	**99.6**	-	99.6	-	99.6	Philippines
FirstHomes, Inc. (FHI)	**-**	**99.6**	-	99.6	-	99.6	Philippines
Eton Properties Management Corporation (EPMC)	**-**	**99.6**	-	99.6	-	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) [3]	**80-100**	**-**	80-100	-	80-100	-	Various
Philippine National Bank (PNB) and Subsidiaries[4]	**-**	**56.5**	-	56.5	-	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	**-**	**56.5**	-	56.5	-	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	**-**	**56.5**	-	56.5	-	56.5	Philippines
PNB Forex, Inc.	**-**	**56.5**	-	56.5	-	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	**-**	**56.5**	-	56.5	-	56.5	Philippines

	Percentage of Ownership						
	2019		2018 (Note 37)		2017		Country of
	Direct	**Indirect**	Direct	Indirect	Direct	Indirect	Incorporation
PNB General Insurers, Inc. (PNB Gen)	**-**	**56.5**	-	56.5	-	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	**-**	**56.5**	-	56.5	-	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	**-**	**56.5**	-	56.5	-	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	**-**	**56.5**	-	56.5	-	56.5	USA
PNB RCI Holding Co. Ltd.	**-**	**56.5**	-	56.5	-	56.5	USA
PNB Remittance Co. (Canada)	**-**	**56.5**	-	56.5	-	56.5	Canada
PNB Europe PLC	**-**	**56.5**	-	56.5	-	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	**-**	**56.5**	-	56.5	-	56.5	Hong Kong
PNB Italy SpA (PISpA)	**-**	**-**	-	-	-	-	Italy
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	**-**	**50.8**	-	50.8	-	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	**-**	**50.8**	-	50.8	-	50.8	Philippines
PNB Savings Bank	**-**	**56.5**	-	56.5	-	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	**-**	**56.5**	-	56.5	-	56.5	United Kingdom
Allied Commercial Bank (ACB)	**-**	**55.9**	-	55.9	-	55.9	Republic of China
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) (5)	**-**	**44.0**	-	44.0	-	24.8	Philippines
Allied Leasing and Finance Corporation (ALFC)	**-**	**57.2**	-	57.2	-	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	**-**	**51.0**	-	51.0	-	28.8	Hong Kong
ACR Nominees Limited	**-**	**51.0**	-	51.0	-	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	**-**	**27.8**	-	27.8	-	15.7	USA
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) (6)	**100.0**	**-**	100.0	-	-	-	Singapore
Mabuhay Digital Technologies, Inc. (MDTI)	**-**	**100.0**	-	100.0	-	-	Philippines
Mabuhay Digital Philippines, Inc. (MDPI)	**-**	**100.0**	-	100.0	-	-	Philippines
Asia's Emerging Dragon Corporation	**60.0**	**40.0**	60.0	40.0	-	100.0	Philippines

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- As a policy, comparatives are presented as if the entities had always been combined.

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

<u>*New Standard and Interpretation*</u>
- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>*Amendments to Accounting Standards*</u>
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:

  o 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

  o 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*

  o 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.

  o 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.

  o 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.

<u>*Standards and Interpretation Issued but not yet Effective*</u>
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:
  o A specific adaptation for contracts with direct participation features (the variable fee approach)
  o A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

Deferred effectivity

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

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

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

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

Significant Accounting Policies Applicable to the Group

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is:

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

All other assets are classified as noncurrent.

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

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

Financial Instruments – Initial Recognition

Date of recognition

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

Initial recognition of financial instruments

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

Financial Instruments – Classification and Subsequent Measurement

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

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

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

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

Derivatives recorded at FVTPL

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

Financial assets

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. Gains or losses on liabilities held for trading are recognised in the consolidated statement of income.

Policies applicable prior to January 1, 2018

Financial assets or financial liabilities held-for-trading

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

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

Designated financial assets or financial liabilities at FVTPL

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

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

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

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

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

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

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

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

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

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

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVTPL, are classified as 'Deposit Liabilities', 'Bills and Acceptances Payable', 'Subordinated Debt' and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

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

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

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

<u>Derecognition of Financial Assets and Liabilities</u>
Financial asset
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

<u>Impairment of Financial Assets</u>
Overview of the ECL principles
The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Stage Migration and Significant Increase in Credit Risk
Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12-month ECL.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

Definition of "Default" and "Cure"
A default is considered to have occurred when (a) the obligor is past due for more than 90 days on any material credit obligation to the Group, or (b) the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable. An instrument is considered to be no longer in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

Determining Significant Increase in Credit Risk
At each reporting date, the Group shall assess whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group's assessment of SICR involves looking at (a) quantitative element, (b) qualitative element, and (c) if unpaid for at least 30 days ("backstop").

The quantitative element is being looked through statistical models or credit ratings process or scoring process that captures certain information which the Group shall consider as relevant in assessing changes in credit risk. The Group may also look at the number of notches downgrade of credit risk rating (CRR) or certain thresholds for the probabilities of default being generated from statistical models to determine whether SICR has occurred subsequent to initial recognition date.

Staging Transfer
Credit exposures shall be transferred from Stage 1 to Stage 2 if there is SICR from initial recognition date. Exposures shall be classified as Stage 2 if (a) the exposure have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures; (b) If there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

Exposures shall be transferred from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to their transfer. Quantitative indicator is characterized by payments made within an observation period. Qualitative indicator pertains to the results of assessment of the borrower's financial capacity.

As a general rule, full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or Restructured Loans and Other Credit Exposures
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. Such modifications can be provided depending on the borrower's current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.

If a loan or credit exposure has been renegotiated or modified, and was not derecognized, the Group shall assess whether there has been a SICR by comparing the (a) risk of default at reporting date based on modified terms, and the (b) risk of default at initial recognition date based on original terms.

Purchased or Originated Credit-Impaired Loans
A loan is considered as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition, i. e., acquired/purchased at a deep discounted price. The Group shall only recognize the cumulative changes in lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL
ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability-of-default (PD) - an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Exposure-at-default (EAD) - an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Loss-given-default (LGD) - an estimate of the loss arising in case where defaults occurs at a given time. It is based on the difference between the contractual cash flow due and those that the Group would expect to receive, including from any collateral.
- Discount rate – represents the rate to be used to discount an expected loss to a present value at the reporting date using the original effective interest rate determined at initial recognition.

Forward-looking information shall be considered in estimating/determining the 12-month and lifetime PD, EAD and LGD depending on the credit exposure.

Macroeconomic Forecasts, Forward-looking Information and Probability-weighted Scenarios
ECL measurement is determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Forward-looking macroeconomic information and scenarios shall consider:

- Factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, etc.
- Changes in government policies, rules and regulations, such as adjustments to policy rates
- Other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults/losses, etc.

The Group applies a simplified ECL approach for its other loans and receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to product conditions over the span of a given observation period.

<u>Policies applicable prior to January 1, 2018</u>
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investment securities at amortized cost
For financial assets carried at amortized costs such as "Loans and Receivables", "HTM Investments", "Due from BSP", "Due from Other Banks", "Interbank Loans Receivable" and "Securities Held under Agreements to Resell", the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as internal credit risk rating, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under "Other income' in the consolidated statement of income.

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under "Provision for credit losses" in the consolidated statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to 'Recoveries' under 'Miscellaneous income' in the consolidated statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the consolidated statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the consolidated statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

<u>Offsetting of Financial Instruments</u>
Financial instruments are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

<u>Investments in Associates and Joint Ventures</u>
Investment in associates pertains to entities over which the Group has significant influence but not control. Investment in joint ventures pertains to the Group's interest in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The joint venture arrangements requires unanimous agreement for financial and operating decisions among the venturers. The Group recognizes its investments in associates and joint ventures using the equity method.

Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associates and joint ventures. The Group's share in the associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' and joint ventures' equity reserves is recognized directly in other comprehensive income. When the Group's share of losses in the associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the associates and joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

Where necessary, adjustments are made to the financial statements of the associates and joint ventures to bring the accounting policies used in line with those used by the Group.

For additional acquisitions resulting to a significant influence over an associate whose original investments were previously held at fair value through other comprehensive income, the changes in fair value previously recognized are reversed through equity reserves to bring the asset back to its original cost. The difference between the sum of consideration and the share of fair value of net assets at date the investment becomes an associate is recognized as goodwill which is retained in the carrying value of the investment or a gain in consolidated net income under "Equity in net earnings of associates".

Upon loss of significant influence over the associate or upon loss of joint control on the jointly controlled entity, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associates and joint ventures upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized either in consolidated statement of income or in consolidated statement of comprehensive income.

<u>Other Current Assets</u>
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises mainly of prepaid importation charges and excise tax, prepaid rentals and insurance premiums and other prepaid items, and creditable withholding tax. Prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred.

Prepaid importation charges are applied to respective asset accounts, i.e., inventories and equipment, as part of their direct cost once importation is complete. Prepaid excise taxes are applied to inventory as part of its cost once related raw material item is consumed in the production. Creditable withholding tax is deducted from income tax payable on the same year the revenue was recognized.

Effective January 1, 2019
<u>Property and equipment</u>
Effective January 1, 2019, it is the Group's policy to classify ROU assets as part of property and equipment. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term, as follows:

	Number of Years
ROU assets - branch premises	1 - 25 or the lease term, whichever is shorter (provided that lease term is more than one year)
ROU assets - land	10 - 40 or the lease term, whichever is shorter
ROU assets - warehouse	5 - 15 or the lease term, whichever is shorter
ROU assets - warehouse equipment	5 - 15 or the lease term, whichever is shorter

ROU assets are subject to impairment.

Effective for both periods presented
<u>Property, Plant and Equipment</u>
Property, plant and equipment, other than land and land improvements, plant buildings and building improvements, and machineries and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, accredited and independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of related deferred income tax effect" (presented as part of "Other comprehensive income" in the equity section of the consolidated statement of financial position).

Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

Construction in progress consists of properties in the course of construction for production or administrative purposes, which are carried at cost less any recognized impairment loss. This includes cost of construction and equipment, and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and put into operational use.

Returnable containers (i.e., returnable bottles and crates) are stated at cost less accumulated depreciation and any impairment in value. Cost of manufactured containers comprises materials used and applicable allocation of fixed and variable labor and overhead cost. Amortization of returnable containers is included under "Selling expenses" account in the consolidated statement of comprehensive income.

Deposit value for the containers loaned to customer is included as part of "Trade payable" under "Accounts payable and accrued expenses" account in the consolidated statement of financial position.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
At appraisal values:	
Land improvements	5 - 15
Plant buildings and building improvements	8 - 50
Machineries and equipment	5 - 30
Office and administration buildings	20 - 40
Leasehold improvements	3 - 30 or lease term, whichever is shorter
Transportation equipment	2 - 5
Returnable containers	5 - 7
Furniture, fixtures and other equipment	3 - 20

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the item is derecognized.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any impairment in value are removed from the accounts, and any gain or loss resulting from their disposal is recognized in the consolidated statement of income.

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

Effective January 1, 2019
Investment properties
Investment properties also include ROU assets involving real properties that are subleased to other entities.

For those ROU assets that qualify as investment properties, i.e., those land and buildings that are subleased by the Company, these are classified under investment properties in accordance with paragraph 48 of PFRS 16. Consistent with the Group's policy regarding the measurement of investment properties, these assets are subsequently measured at cost less amortization and impairment in value.

Effective for both periods presented
Investment Properties
Investment properties are initially measured at cost, including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless the exchange lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. Any gain or loss on the exchange is recognized in "Net gains on sale or exchange of assets" and presented in the "Others" account in the consolidated statement of income. Foreclosed properties are classified under "Investment properties" upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (*dacion en pago*).

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations in the period in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is calculated on a straight-line basis using the estimated useful life from the time of acquisition of the investment properties.

The estimated useful life of the depreciable investment properties which generally include building and improvements ranges from 5 to 50 years.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in "Others" in the year of retirement or disposal.

Transfers are made to investment property only when there is a change in use evidenced by cessation of owner-occupation or of construction or development, or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Other Properties Acquired
Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful/economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of the reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Software costs
Software costs, included in "Other noncurrent assets", are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis.

Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Impairment of Noncurrent Nonfinancial Assets
Property, plant and equipment, investment properties, other properties, investments in associates and joint ventures, and software costs
At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating units') fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations or to the revaluation increment for assets carried at revalued amount, in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated (or to the aggregate carrying amount of a group of cash-generating units to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill at the end of the reporting period.

Revenue
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Upon adoption of PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized.

Costs and Expenses
Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Selling and general and administrative expenses
Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

Taxes and licenses
Taxes and licenses include all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees and are recognized as costs and expenses when incurred.

Retirement Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset
- remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refund from the plan or reduction in future contribution to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Borrowing Costs
Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. Capitalization ceases when pre-selling of real estate inventories under construction commences. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVTPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the consolidated statement of financial position.

Leases
Policies applicable effective January 1, 2019
The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee
Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Applicable to both periods presented
The Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the consolidated statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the consolidated statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized in consolidated statement of income on a straight-line basis over the lease term. Any difference between the calculated rental income and amount actually received or to be received is recognized as deferred rent in the consolidated statement of financial position. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Variable rent is recognized as income based on the terms of the lease contract.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized under "Other income" account in the consolidated statement of income.

Effective prior to January 1, 2019
In determining whether an arrangement was, or contained a lease, the Group assessed the substance of the arrangement whether the fulfillment of the arrangement was dependent on the use of a specific asset or assets, and the arrangement conveyed a right to use the asset. After inception of the lease, the Group reassessed the above basis only if one of the following applies:

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

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

The Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in "Property, plant and equipment" account with the corresponding liability to the lessor included in "Other liabilities" account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to "Finance costs".

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments for noncancellable lease are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term while the variable rent is recognized as an expense based on terms of the lease contract.

Foreign Currency-denominated Transaction and Translation
The Group's consolidated financial statements are presented in Philippine peso, which is also LTG's functional currency. Each of the subsidiaries determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the individual entities in the Group in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions. Outstanding monetary assets and liabilities denominated in foreign currencies are translated using the closing foreign exchange rate prevailing at the reporting date. All differences are charged to profit or loss in the consolidated statement of income.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign Currency Deposit Unit (FCDU) and Overseas Subsidiaries
As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Group, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation shall be recognized in consolidated statement of income.

Income Taxes
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

Deferred income tax
Deferred income tax is recognized on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income taxes relating to items recognized directly in OCI are also recognized in OCI and not in the consolidated statement of income.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in consolidated statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Accounts payable and accrued expenses" in the consolidated statement of financial position.

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements.

Equity
Capital stock is measured at par value for all shares issued by the Group. When the Group issue more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Capital in excess of par is the portion of the paid-in capital representing excess over the par or stated value.

Preferred shares of subsidiaries issued to Parent Company are own-equity instruments by the Bank Holding Companies that are issued to Tangent (see Note 30).

Other equity reserves include effect of transactions with non-controlling interest and equity adjustments arising from business combination under common control and other group restructuring transactions.

Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the consolidated statement of changes in equity) that are not recognized in the consolidated statement of income for the year in accordance with PFRSs. Other comprehensive income (loss) of the Group includes cumulative translation adjustments, net changes in fair values of financial assets at FVTOCI and AFS investments, remeasurement gains (losses) on defined benefit plans, revaluation increment in property, plant and equipment and share in other comprehensive income of associates.

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

Treasury shares are owned equity instruments that are reacquired. Where any member of the Group purchases the Company's capital stock (presented as "Shares of stock of the Company held by subsidiaries"), the consideration paid, including any directly attributable incremental costs (net of related taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transactions costs and the related income tax effect, is included in equity attributable to the equity holders of the Company.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any.

Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends on Common Shares
Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Company. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

Events After the Reporting Period
Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the consolidated financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

Segment Reporting
The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 4 to the consolidated financial statements.

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue
Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that economic benefits will flow to the banking segment and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the banking segment expects to be entitled in exchange for those services.

The banking segment assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The banking segment has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income
The banking segment earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Bancassurance fees*
Non-refundable access fees are recognized on a straight-line basis over the term of the period of the provision of the access.

Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

c) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction.

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the banking segment retains no part of the loans for itself or retains part at the same EIR as the other participants.

The banking segment assessed that there is no difference in accounting for service fees and commission income under PFRS 15 and PAS 18.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the banking segment's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The banking segment operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the banking segment. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

Prior to the adoption of PFRS 15, consideration received is allocated between the discounts earned,interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed or have expired. The deferred balance is included under 'Other liabilities' in the statement of financial position.

Upon adoption of PFRS 15 beginning January 1, 2018, the banking segment allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The amount allocated to the loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process (i.e., upon transfer of control under PFRS 15 and transfer of risks and rewards under PAS 18) and when the collectability of the sales price is reasonably assured.

Revenues outside the scope of PFRS 15:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVTOCI, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the banking segment calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the banking segment reverts to calculating interest income on a gross basis.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Insurance contract liabilities.'

Dividend income
Dividend income is recognized when the banking segment's right to receive payment is established.

Trading and investment securities gains - net
'Trading and investment securities gains - net' includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL and gains and losses from disposal of financial assets at FVTOCI/AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the banking segment on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums. The net changes in these accounts between ends of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Insurance Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately as FVTPL. Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVTPL. The options and guarantees within the insurance contracts issued by the Group are treated as derivative financial instruments which are closely related to the host insurance and therefore not bifurcated subsequently. As such, the Group does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the consolidated statement of financial position. The corresponding cash received, including accrued interest, is recognized in the consolidated statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the consolidated statement of financial position as "Securities held under agreements to resell", and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value under "Other noncurrent liabilities". Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated statement of income in "Service fees and commission income", over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of income in "Provision for impairment and credit losses". Any financial guarantee liability remaining is recognized in the consolidated statement of income in "Service fees and commission income", when the guarantee is discharged, cancelled or has expired.

Policy Loans
Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to "Other receivables".

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as "Other liabilities" in the consolidated statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the "Other liabilities" in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Cost (DAC)
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized. Amortization is charged to the consolidated statement of income. The unamortized acquisition costs are shown as "Deferred acquisition costs" in the assets section of the consolidated statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Nonlife Insurance Contract Liabilities
Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the consolidated statement of financial position. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported (IBNR) losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with

certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, discharged or cancelled.

Liability Adequacy Test
Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related DAC assets. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods
Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Sale of goods effective January 1, 2018
The Group enters into a marketing and distributorship agreement in which the Group undertakes to sell the products specified including its quantity indicated in an approved purchased order exclusively to the marketing distributors. No other promised goods or services was specified in the contract or provided based on the customary business practice. This is considered as one performance obligation; hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are delivered.

Sale of commercial bottles effective January 1, 2018
The Group enters into a contract with customer through an approved purchased order which constitute a valid contract as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified in the contract.

- Goods are sold and delivered to customer - the Group undertakes to sell the products specified in the approved purchase order and will deliver the products to the customer's premises. This is considered as two performance obligations. Hence, base transaction price will be allocated between the sale of goods and delivery costs. The base transaction price is composed of total price less discount and VAT. The Group recognizes revenue at a point in time, once goods are sold and delivered. Based on the customary business practice of the Group, the goods are sold and delivered on the same day.

- Goods are sold and picked up by customer - the contract is effectively modified when goods are picked up by the customer from the warehouse, the entire transaction price attributable to one performance obligation only. The delivery costs previously deducted from freight expenses will be presented as freight income as part of revenue under PFRS 15. Hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are picked up from the warehouse.

Sale of goods and commercial bottles prior to January 1, 2018
Revenue from the sale of goods, included under "Net sales", is recognized when goods are delivered to and accepted by the customers. Sale of goods are measured at the fair value of the consideration received or receivable, excluding discounts, returns and VAT.

Cost of Consumer Goods Sold
Cost of consumer goods sold is recognized as expense where the related goods are sold.

Consumer Goods Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage
Finished goods	Moving-average	Weighted-average
Work in process	Moving-average	Weighted-average
Raw materials and materials and supplies	Moving-average	Moving-average

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue and Cost Recognition
Real estate sales effective January 1, 2018
The Group derives its real estate sales from sale of residential lots and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on the physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. Based on the monthly project accomplishment report approved by the site project manager which integrates the surveys of performance to date of the construction activities.

Real estate sales prior to January 1, 2018
The Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectability is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. The Group starts recognizing income under percentage-of-completion when the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the consolidated statement of financial position as part of real estate inventories and the deposit as part of "Customers' deposits" account.

On February 14, 2018, the Philippines Interpretation Committee (PIC) issued PIC Q&A 2018-12 (PIC &A) which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 25, 2018 and February 8, 2019, the SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three (3) years.

a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E;
b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D; and
c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H.

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 - Accounting for Cancellation of Real Estate Sales was also deferred.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the Philippine SEC will later prescribe.

The Group availed of the deferral of adoption of the following specific provisions of PIC Q&A. Had these provisions been adopted, it would have the following impact in the consolidated financial statements:

a. The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using the effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2019 and 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.

b. The Group is acting as a principal for the provision of air-conditioning services, common usage services and administration and handling services. This would have resulted to the gross presentation of the related revenue and the related cost and expenses. Currently, the related revenue is presented net of costs and expenses. These would not result to any adjustment in the retained earnings as of January 1, 2018 and net income for the years ended December 31, 2019 and 2018.

Rental income
Rental income under noncancellable and cancellable leases on investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term, or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

Charges and expenses recoverable from tenants
Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of real estate sales
Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Costs to obtain contract
The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Selling expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

Cost of rental income
Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Rooms and other operated departments
Revenue from room rentals and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

Costs of services
Costs of services include expenses incurred by the Group for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

Real Estate Inventories
Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and NRV.

Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs; and (d) borrowing costs capitalized prior to start of pre-selling activities for the real estate project.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale. The carrying amount of inventories is reduced through the use of allowance account and the amount of loss is charged to profit or loss.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Customers' Deposits including Excess of Collections over Recognized Receivables
Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits
Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated statement of financial position, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated statement of financial position, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Commissions
Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of functional currency
Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation,including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Peso except for the following entities with functional currency other than the Peso:

Subsidiary	Functional Currency
PNB Guam	United States Dollar
PNB IIC	-do-
PNB RCI	-do-
Nevada	-do-
PNB RCI Holding Co. Ltd.	-do-
ACB	-do-
OHBVI	-do-
ABUK	Great Britain Pound
PNB Europe PLC	-do-
Canada	Canadian Dollar
PNB GRF	Hongkong Dollar
ABCHKL	-do-
ACR Nominees Limited	-do-
APB Singapore	United States Dollar
APB Myanmar	Myanmar Kyat

Assessment of control over the entities for consolidation
The Group has majority-owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority-owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group, through PNB, holds less than 50% of OHBVI's issued share capital. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of PNB's combined voting rights of 70.56%, which is arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

Classification of financial assets
Beginning January 1, 2018, the Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

The SPPI test is the first of two tests that determine the classification of a financial asset. When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

The business model assessment (BMA) is the second test. The BMA reflects how financial assets are managed in order to generate net cash inflows, The Group performs BMA based on the following factors:

- Business objectives and strategies for holding financial assets
- Performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets
- Attendant risks and the tools applied in managing them
- Compensation structure, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions
- Frequency and timing of disposals

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP, particularly the guidelines contained in Circular No. 1011.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding Companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱8.5 billion and ₱18.1 billion as equity as of December 31, 2019 and 2018 (see Note 30).

Revenue recognition on real estate sales
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (b) assessment of the probability that the entity will collect the consideration from the buyer; (c) determination of the transaction price; (d) application of the output/input method as the measure of progress in determining real estate revenue; (e) determination of the actual costs incurred as cost of goods sold; and (f) recognition of cost to obtain a contract.

a) *Existence of a contract*
The Group's primary document for a contract with a customer is a signed contract to sell. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

b) *Revenue recognition method and measure of progress*
The Group concluded that revenue for real estate sales is to be recognized over time because (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customer.

c) *Identifying performance obligation*
The Group has various contracts to sell covering residential lots and condominium units. The Group concluded that there is one performance obligation in each of these contracts because: (i) for residential lots, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract; (ii) for the contract covering condominium units, the developer has the obligation to deliver the house or condominium unit duly constructed on a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Group's service to transfer the title of the real estate unit to the customer.

Revenue recognition on sale of consumer goods
Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint. (d) recognition of revenue as the Group satisfies the performance obligation.

a) *Existence of a contract*
The Group's primary document for a contract with a customer for each type of revenue stream is:

- *Sale of goods*
A signed marketing and distributorship agreement with an approved purchased order. Each party's rights regarding the goods to be transferred is clearly identified including the product specification and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

- *Sale of commercial bottles*
An approved purchased order with terms clearly identified including the product specification and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

b) *Identifying performance obligation*
The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

- *Sale of goods*
The Group undertakes to sell the products specified including its quantity indicated in an approved purchased order. This is considered as one performance obligation. Based on the customary business practice of the Group, the goods are sold and delivered on the same day.

- *Sale of commercial bottles*
Based on management assessment, there are two performance obligations in each of the approved purchase order. The Group undertakes (a) to sell the products specified in the approved purchase order and (b) to deliver the products to the customer's premises. These promises to sell and to deliver are separately identifiable since they are not highly interrelated with each other within the context of the contract. However, the contract is effectively modified as one performance obligation once the customer decide to pick up the goods from the warehouse.

c) *Recognition of revenue as the Group satisfies the performance obligation*
The Group recognizes its revenue for all revenue streams at a point in time, where the goods are sold and delivered and when services were already rendered.

Operating lease commitments - the Group as lessor
The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 38).

Determination of lease term of contracts with renewal and termination options – Group as a lessee – PFRS 16 (applicable effective January 1, 2019)
The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements).

Refer to Note 38 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Operating lease commitments - the Group as lessee – effective prior to January 1, 2019
Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, and accordingly, accounts for the lease agreements as operating leases (see Note 38).

Determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates – effective January 1, 2019
Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements. The Group determined, based on its tax assessment, in consultation with its tax counsel, that it is probable that its uncertain tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have significant impact on the consolidated financial statements of the Group.

Classification of properties
The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Bifurcation of embedded derivatives
Where a hybrid instrument is not classified as financial assets at FVTPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Classification of Investment in AB Heineken Philippines, Inc (AB HPI) as Investment in an Associate
In 2016, the Group and Heineken International B.V. (Heineken) established AB HPI, a 50%-owned associate, through a joint venture agreement. The Group has determined that it has significant influence, but no control or joint control, over the operating and financial activities of AB HPI. Accordingly, the Group classified its investment in AB HPI as an investment in an associate.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Provision for expected credit losses of financial assets
For banking segment, The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies.

Elements of the ECL models that are treated as accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively.
- Quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages.
- Development of ECL models, including the various formulas and the choice of inputs

- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs.
- Selection of forward-looking information and determination of probability weightings to derive the ECL.

For the other segments, provision matrix was used to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, property collaterals and coverage by letters of credit and other forms of credit insurance).

The assessment of the correlation between historical observed default rates, forecast economic conditions (i.e., gross domestic product and inflation rate) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from Special Purpose Vehicle (SPV), respectively.

Estimation of allowance for credit losses on loans and receivables prior to January 1, 2018
The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. The Group determines the allowance for credit losses on loans and receivables on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collection, observable market prices and expected net selling prices of the collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from SPV,
respectively.

Estimation of retirement benefits costs and liability
The Group's retirement benefits costs and liability is actuarially computed. This entails using certain assumptions with respect to prospective salary increases, employee turnover rates and discount rates per annum.

Net retirement plan assets as of December 31, 2019 and 2018 amounted to ₱260.0 million and ₱280.5 million, respectively. Net retirement benefits liability amounted to ₱1.7 billion and ₱1.6 billion as of December 31, 2019 and 2018, respectively (see Notes 14 and 23).

Revenue and cost recognition on real estate sales
The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱1.4 billion, ₱1.7 billion and ₱0.8 billion and cost of real estate sales amounting to ₱1.1 billion, ₱1.2 billion and ₱0.5 billion in 2019, 2018 and 2017, respectively (see Note 24).

Impairment of AFS investments prior to January 1, 2018
The computation for the impairment of AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2017, the carrying value of the Group's AFS investments amounted to ₱73.2 billion, net of allowance for impairment losses on AFS equity investments amounting to ₱696.2 million (see Note 7).

Fair values of structured debt instruments and derivatives
The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 34 for information on the fair values of these instruments.

Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development (see Note 20).

Measurement of NRV of inventories
The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2019 and 2018 amounted to ₱10.4 billion and ₱12.4 billion, respectively. Certain materials and supplies amounting to ₱0.8 billion and ₱0.7 billion as of December 31, 2019 and 2018, respectively, are carried at NRV (see Note 9).

Leases - Estimating the IBR – effective January 1, 2019
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as risk-free interest rates) when available and is required to make certain entity-specific estimates (such as the Group's stand-alone credit risk rating).

The Group's lease liabilities amounted to ₱3,247.9 million as of December 31, 2019 (see Note 27).

Valuation of property, plant and equipment under revaluation basis
The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to ₱59.8 billion and ₱60.3 billion as of December 31, 2019 and 2018, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties
The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2019 and 2018, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2019 and 2018 amounted to ₱27.5 billion and ₱27.5 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2019 and 2018 amounted to ₱6.0 billion and ₱7.6 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount
The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRSs.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2019	2018
	(In Thousands)	
Other current assets (except miscellaneous cash and other cash items) [Note 10]	**₱11,292,722**	8,863,642
Investments in associates and joint ventures (Note 11)	**27,254,278**	20,314,141
Property, plant and equipment (Note 12)	**71,899,127**	68,120,694
Investment properties (Note 13)	**32,631,441**	30,318,901
Other noncurrent assets (except net retirement plan assets, refundable and security deposits and goodwill) [Note 14]	**6,857,509**	5,798,886

Impairment of goodwill
The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱163.7 million as of December 31, 2019 and 2018 is not impaired (see Note 14).

Provisions and contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

Reversal of legal claims amounted to ₱99.7 million and ₱253.3 million as of December 31, 2019 and 2018, respectively (see Note 38).

Recognition of deferred income tax assets
The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT over and other deductible temporary differences, which relate to the parent company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The Company and these certain subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could support the recognition of deferred income tax assets on these NOLCO, excess MCIT over RCIT and other deductible temporary differences totaling to ₱0.9 billion and ₱13.2 billion as of December 31, 2019 and 2018, respectively (see Note 29).

Determination of fair value of shares of APLII and EDR
The Group determined the fair value of the shares of APLII using a combination of the Income Approach and the Market Approach. The Income Approach was based on the present value of the future cash flows over a three-year period, adjusted for the control premium and the lack of marketability discount. Significant management judgment is required to determine the expected future cash flows. The valuation under the Income Approach is most sensitive to discount rate and growth rate used to project cash flows.

4. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its subsidiaries.

- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, liquor and bioethanol products. The Group conducts its distilled spirits business through TDI and its subsidiaries.

- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through ABI and its subsidiaries, associate and joint venture.

- Tobacco, which is a supplier and manufacturer of cigarettes, casings, tobacco, packaging, labels and filters. The Group conducts its tobacco business through FTC's interest in PMFTC, Inc. (PMFTC).

- Property Development, which is engaged in ownership, development, leasing and management of residential properties, including but not limited to, all kinds of housing projects, commercial, industrial, urban or other kinds of real property; acquisition, purchasing, development and selling of subdivision lots. The Group conducts its property development business through Eton and its subsidiaries.

- Others, consist of various holding companies (LTG, AEDC, Paramount, Saturn, Shareholdings, and Bank Holding Companies) that provide financing for working capital and capital expenditure requirements of the operating businesses of the Group.

The BOD of LTG reviews the operating results of the business units to make decisions on resource allocation and assesses performance. Segment revenue and segment expenses are measured in accordance with PFRSs. The presentation and classification of segment revenues and segment expenses are consistent with the consolidated statements of income. Finance costs (including interest expense) and income taxes are managed per business segment.

The Group's assets are located mainly in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. The Group's banking segment operates in key cities in the USA, Canada, Western Europe, Middle East and Asia. The distribution of assets and revenues of the banking segment outside the Philippines constitute 19.7% and 4.0% as of December 31, 2019, respectively, and 12.3% and 2.8% as of December 31, 2018 of the Group's consolidated assets and revenues, respectively.

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

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

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

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

The Group's distilled spirits segment derives revenue from two major distributors which averaged 79%, 85% and 85% of the segment's total revenue in 2019, 2018 and 2017, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

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

For the year ended December 31, 2019:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱56,615,631	₱19,261,735	₱15,234,051	₱–	₱3,132,431	₱–	₱94,243,848
Inter-segment	249,877	17,460	696,240	–	–	(963,577)	–
	56,865,508	19,279,195	15,930,291	–	3,132,431	(963,577)	94,243,848
Cost of goods sold and services	19,143,606	16,068,978	11,643,204	–	1,107,876	(1,161,096)	46,802,568
Gross profit	37,721,902	3,210,217	4,287,087	–	2,024,555	197,519	47,441,280
Equity in net earnings (loss) of associates and joint ventures	(97,608)	–	(725,985)	15,437,243	–	199,601	14,813,251
	37,624,294	3,210,2 17	3,561,102	15,437,243	2,024,555	397,120	62,254,531
Selling expenses	–	1,561,758	1,338,050	–	111,616	–	3,011,424
General and administrative expenses	29,627,829	661,940	1,248,334	205,045	807,684	169,898	32,720,730
Operating income	7,996,465	986,519	974,718	15,232,198	1,105,255	227,222	26,522,377
Foreign exchange gains - net	1,105,918	1,599	6,064	(51,889)	(2,228)	(9,484)	1,049,980
Finance income	–	1,060	27,006	369,459	105,948	(357,220)	146,253
Finance costs	–	(98,948)	(166,018)	–	(364,340)	178,465	(450,841)
Others - net	3,306,872	(9,900)	96,036	150,900	434,107	17,287	3,995,302
Income before income tax	12,409,255	880,330	937,806	15,700,668	1,278,742	56,270	31,263,071
Provision for income tax	2,470,986	204,549	539,567	98,530	378,358	5,324	3,697,314
Segment profit	₱9,938,269	₱675,781	₱398,239	₱15,602,138	₱900,384	₱50,946	₱27,565,757
Segment profit attributable to:							
Equity holders of the Company	₱9,858,543	₱666,507	₱399,380	₱15,602,138	₱900,384	(₱4,309,428)	₱23,117,524
Non-controlling interests	79,726	9,274	(1,141)	–	–	4,360,374	4,448,233
Depreciation and amortization expense	2,660,409	575,294	1,546,624	38,220	386,300	28,971	5,235,818

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱488,857,140	₱12,923,043	₱16,840,868	₱5,180,278	₱9,237,156	(₱5,902,547)	₱527,135,938
Noncurrent assets	665,367,850	9,193,536	15,700,574	22,718,539	22,590,537	3,123,579	738,694,615
	₱1,154,224,990	₱22,116,579	₱32,541,442	₱27,898,817	₱31,827,693	(₱2,778,968)	₱1,265,830,553
Liabilities:							
Current liabilities	₱865,580,704	₱3,719,389	₱7,764,522	₱1,317,834	₱7,743,432	(₱9,464,258)	₱876,661,623
Noncurrent liabilities	129,363,371	875,491	1,606,108	103,082	6,248,863	(3,035,556)	135,161,359
	₱994,944,075	₱4,594,880	₱9,370,630	₱1,420,916	₱13,992,295	(₱12,499,814)	₱1,011,822,982
Investments in associates and joint ventures	₱2,605,473	₱–	₱21,171	₱19,193,993	₱–	₱5,433,641	₱27,254,278
Equity attributable to:							
Equity holders of the Company	156,398,876	17,341,825	23,133,222	26,477,901	17,835,398	(54,265,681)	186,921,541
Non-controlling interests	2,882,039	179,874	37,590	–	–	63,986,527	67,086,030
Additions to noncurrent assets:							
Property, plant and equipment	2,761,203	2,878,969	794,790	80,689	20,526	(32,479)	6,503,698
Investment properties	967,611	5,814	–	–	1,651,591	2,111	2,627,127
Short-term debts	–	200,000	2,850,000	–	–	2,100,000	5,150,000
Long-term debts	68,421,487	433,209	596,589	–	6,764,380	(3,646,209)	72,569,456

For the year ended December 31, 2018, as restated, Note 37:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱40,243,028	₱18,062,573	₱14,125,559	₱–	₱3,198,735	₱–	₱75,629,895
Inter-segment	243,617	73,385	969,640	–	–	(1,286,642)	–
	40,486,645	18,135,958	15,095,199	–	3,198,735	(1,286,642)	75,629,895
Cost of goods sold and services	9,784,000	14,845,768	10,995,031	–	1,582,655	(1,242,052)	35,965,402
Gross profit	30,702,645	3,290,190	4,100,168	–	1,616,080	(44,590)	39,664,493
Equity in net earnings (loss) of associates and joint ventures	43,847	–	(736,050)	8,501,997	–	156,897	7,966,691
	30,746,492	3,290,190	3,364,118	8,501,997	1,616,080	112,307	47,631,184
Selling expenses	–	1,468,287	1,130,938	–	101,162	–	2,700,387
General and administrative expenses	26,809,340	650,454	1,230,068	123,783	846,640	149,559	29,809,844
Operating income	3,937,152	1,171,449	1,003,112	8,378,214	668,278	(37,252)	15,120,953
Foreign exchange gains - net	954,063	1,176	6,064	121,542	4,757	14,981	1,102,583
Finance income	–	1,345	22,533	278,345	57,320	(152,902)	206,641
Finance costs	–	(49,816)	(75,405)	–	(291,172)	270,936	(145,457)
Others - net	8,573,326	24,043	25,216	68,172	229,268	146,677	9,066,702
Income before income tax	13,464,541	1,148,197	981,520	8,846,273	668,451	242,440	25,351,422
Provision for income tax	3,687,105	239,271	560,609	55,103	189,694	61,379	4,793,161
Segment profit	₱9,777,436	₱908,926	₱420,911	₱8,791,170	₱478,757	₱181,061	₱20,558,261
Segment profit attributable to:							
Equity holders of the Company	₱9,686,388	₱889,910	₱422,720	₱8,791,170	₱478,757	(₱4,074,167)	₱16,194,778
Non-controlling interests	91,048	19,016	(1,809)	–	–	4,255,228	4,363,483
Depreciation and amortization expense	1,788,711	554,067	1,462,636	27,094	312,875	21,742	4,167,125

Other financial information of the operating segments as of December 31, 2018 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱418,837,342	₱12,028,921	₱13,881,507	₱13,140,794	₱10,664,925	(₱10,172,366)	₱458,381,123
Noncurrent assets	575,865,487	8,106,084	15,531,323	17,128,451	20,817,385	1,946,955	639,395,685
	₱994,702,829	₱20,135,005	₱29,412,830	₱30,269,245	₱31,482,310	(₱8,225,411)	₱1,097,776,808
Liabilities:							
Current liabilities	₱777,166,704	₱2,813,098	₱5,580,065	₱304,374	₱6,105,768	(₱16,145,518)	₱775,824,491
Noncurrent liabilities	85,001,591	556,868	798,342	103,756	8,227,741	(3,926,369)	90,761,929
	₱862,168,295	₱3,369,966	₱6,378,407	₱408,130	₱14,333,509	(₱20,071,887)	₱866,586,420
Investments in associates and joint ventures	₱2,415,414	₱–	₱305,413	₱13,553,425	₱–	₱4,039,889	₱20,314,141
Equity attributable to:							
Equity holders of the Company	129,639,681	16,607,026	22,997,974	29,861,115	17,148,801	(43,287,898)	172,966,699
Non-controlling interests	2,894,853	158,013	36,449	–	–	55,134,374	58,223,689
Additions to noncurrent assets:							
Property, plant and equipment	3,020,666	661,067	1,319,686	68,003	34,453	31,929	5,135,804
Investment properties	833,864	–	–	1,143,611	2,358,291	–	4,335,766
Short-term debts	–	200,000	2,050,000	–	–	(200,000)	2,050,000
Long-term debts	15,661,372	–	–	–	7,190,965	(4,206,185)	18,646,152

For the year ended December 31, 2017, as restated, Note 37:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Segment revenue:							
External customers	₱32,124,835	₱16,704,933	₱12,948,796	₱–	₱2,233,063	₱–	₱64,011,627
Inter-segment	274,244	89,388	944,440	–	–	(1,308,072)	–
	32,399,079	16,794,321	13,893,236	–	2,233,063	(1,308,072)	64,011,627
Cost of goods sold and services	6,339,368	14,077,274	9,591,814	–	808,582	(1,137,228)	29,679,810
Gross profit	26,059,711	2,717,047	4,301,422	–	1,424,481	(170,844)	34,331,817
Equity in net earnings (loss) of associates and joint ventures	59,215	–	(636,330)	4,396,320	–	144,300	3,963,505
	26,118,926	2,717,047	3,665,092	4,396,320	1,424,481	(26,544)	38,295,322
Selling expenses	–	1,319,102	1,326,726	–	46,597	–	2,692,425
General and administrative expenses	21,968,056	584,829	1,086,694	141,044	684,931	119,257	24,584,811
Operating income	4,150,870	813,116	1,251,672	4,255,276	692,953	(145,801)	11,018,086
Foreign exchange gains (losses) - net	1,674,370	(1,307)	3,772	23,408	(149)	1,208	1,701,302
Finance income	–	215	25,012	101,413	44,556	(14,096)	157,100
Finance costs	–	(33,206)	(50,900)	–	(355,120)	297,289	(141,937)
Others - net	5,054,045	54,361	(37,647)	71,369	129,858	71,174	5,343,160
Income before income tax	10,879,285	833,179	1,191,909	4,451,466	512,098	209,774	18,077,711
Provision for income tax	2,322,213	202,052	639,729	19,110	164,458	149,493	3,497,055
Segment profit	₱8,557,072	₱631,127	₱552,180	₱4,432,356	₱347,640	₱60,281	₱14,580,656
Segment profit attributable to:							
Equity holders of the Company	₱4,830,426	₱623,802	₱552,180	₱4,413,740	₱346,319	₱64,306	₱10,830,773
Non-controlling interests	3,726,646	7,325	–	18,616	1,321	(4,025)	3,749,883
Depreciation and amortization expense	1,519,111	514,624	1,393,040	19,040	254,105	21,803	3,721,723

Other financial information of the operating segments as of December 31, 2017 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
				(In Thousands)			
Assets:							
Current assets	₱375,392,442	₱12,959,935	₱12,590,611	₱11,508,813	₱11,179,580	(₱7,043,863)	₱416,587,518
Noncurrent assets	448,155,535	7,105,438	15,305,077	14,516,726	18,545,874	(3,120,479)	500,508,171
	₱823,547,977	₱20,065,373	₱27,895,688	₱26,025,539	₱29,725,454	(₱10,164,342)	₱917,095,689
Liabilities:							
Current liabilities	₱664,985,426	₱3,483,340	₱4,355,838	₱303,905	₱4,892,439	(₱12,623,125)	₱665,397,823
Noncurrent liabilities	51,413,216	623,725	1,011,573	84,530	8,143,165	(4,893,758)	56,382,451
	₱716,398,642	₱4,107,065	₱5,367,411	₱388,435	₱13,035,604	(₱17,516,883)	₱721,780,274
Investments in associates and joint ventures	₱2,363,757	₱–	₱1,032,149	₱11,447,030	₱–	₱2,387,989	₱17,230,925
Equity attributable to:							
Equity holders of the Company	61,602,401	15,819,758	22,484,240	25,637,104	16,689,850	6,081,150	148,314,503
Non-controlling interests	45,546,934	138,550	44,037	–	–	1,271,391	47,000,912
Additions to noncurrent assets:							
Property, plant and equipment	1,930,786	423,237	1,886,560	47,942	28,785	11,016	4,328,326
Investment properties	625,660	–	–	51,233	1,741,479	–	2,418,372
Short-term debts	–	880,000	1,550,000	–	–	(880,000)	1,550,000
Long-term debts	–	–	–	–	6,080,147	(4,490,000)	1,590,147

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Cash and other cash items	**₱33,823,608**	₱21,298,919
Cash equivalents:		
Due from Bangko Sentral ng Pilipinas (BSP)	**105,981,801**	102,723,312
Due from other banks	**17,758,143**	21,003,079
Interbank loans receivable	**24,831,816**	11,248,455
Securities held under agreements to resell	**2,517,764**	20,700,000
	₱184,913,132	₱176,973,765

a. Cash and other cash items consist of cash on hand and in banks and short-term investments. Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.

b. Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.

c. Interest earned on cash and other cash items and cash equivalents are presented under “Finance income” and “Banking revenue”, respectively (see Notes 24 and 27).

6. Financial Assets at Fair Value through Profit or Loss

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

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Government securities	**₱8,503,822**	₱8,457,713
Private debt securities	**3,130,156**	415,583
Equity securities	**1,455,435**	545,148
Derivative assets (Notes 21 and 33)	**373,040**	574,628
Unit investment trust fund (UITF)	**6,927**	791,278
	₱13,469,380	₱10,784,350

a. As of December 31, 2019 and 2018, unrealized loss on government and private debt securities amounted to ₱78.8 million and ₱20.7 million, respectively. In 2019, 2018 and 2017, the nominal interest rates range from 2.5% to 9.5%, from 2.8% to 8.4% and from 2.1% to 6.1%, respectively, for the government securities, and from 5.5% to 7.4%, from 3.0% to 7.5%, and from 5.2% to 6.6%, respectively, for the private debt securities.

b. The carrying amount of equity securities includes unrealized loss of ₱1.4 million and ₱7.9 million as of December 31, 2019 and 2018, respectively.

c. On various dates in 2014, the Group invested in PNB Institutional Money Market Fund which is a money market UITF. The investment is subject to a minimum holding period of 30 days. Mark-to-market gains on financial assets at FVTPL amounted to ₱17.8 million, ₱17.2 million and ₱59.5 million in 2019, 2018 and 2017, respectively (see Note 28). Realized gains from redemption of investment presented under finance income amounted to ₱22.8 million in 2019, ₱22.9 million in 2018 and ₱20.2 million in 2017 (see Note 27).

7. Financial Assets at FVTOCI and Financial Assets at Amortized Cost

Financial Assets at FVTOCI

This account consists of:

	2019	2018 (As Restated, Note 37)
	(in thousands)	
Government securities (Note 17)	**₱91,540,723**	₱33,973,977
Other debt securities	**30,390,001**	17,718,844
Equity securities:		
Quoted	**4,174,897**	3,984,660
Unquoted	**1,412,000**	2,129,641
	127,517,621	57,807,122
Noncurrent portion	**(110,549,031)**	(48,122,239)
	₱16,968,590	₱9,684,883

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

a. For the years ended December 31, 2019, 2018 and 2017, the nominal interest rates of government securities range from 0.2% to 9.5%, 1.8% to 11.6% and 1.1% to 10.6%, respectively.

b. For the years ended December 31, 2019, 2018 and 2017, the nominal interest rates of private debt securities range from 3.5% to 6.9%, 2.6% to 7.4% and 2.6% to 7.4%, respectively.

c. As of December 31, 2019 and 2018, the fair value of financial assets at FVTOCI in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to ₱8.1 billion and ₱11.3 billion, respectively (see Note 17). The counterparties have an obligation to return the securities to PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

d. Other debt securities consist of notes issued by private entities.

e. As of December 31, 2019 and 2018, effective interest rates for the financial assets at FVTOCI investments follow:

	2019	2018
Peso-denominated	**3.00% to 7.00%**	0.41% to 6.30%
Foreign-currency denominated	**0.18% to 7.25%**	1.13% to 6.00%

The net unrealized gains on financial assets at FVTOCI amounted to ₱3.9 billion for the Group, net of deferred income tax effect amounting to 214.6 million, and ₱1.4 billion for the Group, net of deferred income tax effect amounting to ₱214.6 million in 2019 and 2018, respectively.

Financial Assets at Amortized Cost

This account consists of:

	2019	2018 (As Restated, Note 37)
Government securities (Note 19)	**₱55,594,860**	₱60,278,202
Private debt securities (Note 19)	**48,655,093**	44,296,923
	104,249,953	104,575,125
Less allowance for expected credit losses (Note 12)	**(3,785,196)**	(3,769,264)
	₱100,464,757	₱100,805,861

In 2019 and 2018, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which remained in Stage 1 and amortization of the corresponding gross figures.

On various dates in April 2019, the Parent Company sold a portion of its investment securities at amortized cost with a carrying value of ₱29.5 million and corresponding gain of ₱0.2 million as part of its risk management policies.

As of December 31, 2019 and 2018, the fair value of financial asset at amortized cost investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱21.0 billion and ₱36.3 billion, respectively (see Note 17).

8. Loans and Receivables

Loans and receivables consist of:

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Finance receivables (Notes 17 and 22)	**₱672,252,455**	₱598,931,010
Trade receivables	**15,273,662**	14,311,108
Other receivables	**3,401,409**	3,193,332
	690,927,526	616,435,450
Allowance for credit losses	**(18,747,178)**	(17,773,520)
	672,180,348	598,661,930
Noncurrent portion	**(411,253,754)**	(388,646,568)
	₱260,926,594	₱210,015,362

Finance Receivables

	2019	2018 (As Restated, Note 37)
	(In Thousands)	
Receivables from customers:		
Loans and discounts	**₱616,615,375**	₱539,226,464
Customers' liabilities on acceptances, letters of credit and trust receipts	**10,185,304**	13,996,643
Bills purchased (Note 20)	**1,945,838**	2,222,377
Credit card receivables	**15,869,946**	13,412,063
Finance lease receivables	**3,079,713**	2,928,339
	647,696,176	571,785,886
Other receivables:		
Accounts receivable	**9,932,268**	9,157,522
Accrued interest receivable	**7,814,819**	6,729,172
Sales contract receivables	**6,849,281**	11,916,785
Miscellaneous	**411,102**	582,385
	25,007,470	28,385,864
	672,703,646	600,171,750
Unearned and other deferred income	**(451,191)**	(1,240,740)
	672,252,455	598,931,010
Allowance for credit losses	**(18,413,228)**	(17,309,069)
	653,839,227	581,621,941
Noncurrent portion	**(410,579,450)**	(388,351,850)
	₱243,259,777	₱193,270,091

a. Unquoted debt securities

Unquoted debt instruments include the zero-coupon notes received by PNB from SPV Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. In 2016, PNB obtained additional non-resident unquoted debt investments amounting to ₱3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2019 and 2018, the notes are carried at their recoverable values.

b. Finance lease receivable

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

	2019	2018
	(In Thousands)	
Gross investment in finance lease receivables		
Due within one year	**₱1,260,542**	₱1,101,635
Due beyond one year but not over five years	**1,164,893**	1,151,333
Due beyond five years	**–**	26,034
	2,425,435	2,279,002
Residual value of leased equipment		
Due within one year	**304,898**	298,725
Due beyond one year but not over five years	**349,380**	350,612
	654,278	649,337
Total finance lease receivable	**₱3,079,713**	₱2,928,339

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

	2019	2018	2017 (As Restated, Note 37)
Receivable from customers and sales contract receivables	**₱39,618,639**	₱29,966,048	₱22,255,272
Unquoted debt securities	**–**	–	146,012
	₱39,618,639	₱29,966,048	₱22,401,284

As of December 31, 2019 and 2018, 71.1% and 64.1%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2019 and 2018, 70.2% and 61.7%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2019, from 1.8% to 9.0% in 2018 and from 2.0% to 8.3% in 2017 for foreign currency-denominated receivables, and from 1.5% to 19.4% in 2019, from 1.5% to 13.0% in 2018 and from 1.9% to 7.9% in 2017 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.3% to 21.0%, 3.3% to 21.0% and 2.70% to 21.00% in 2019, 2018 and 2017, respectively.

Trade Receivables
Trade receivables consist of:

	2019	2018
	(In Thousands)	
Consumer goods	**₱13,899,237**	₱12,916,794
Contract receivables	**1,374,425**	1,348,498
Lease receivables	**–**	45,816
	15,273,662	14,311,108
Allowance for credit losses/doubtful accounts	**(322,710)**	(453,211)
	14,950,952	13,857,897
Noncurrent portion of contract receivables	**(674,304)**	(294,718)
	₱14,276,648	₱13,563,179

a. Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.

b. Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to nil, ₱14.3 million and ₱16.5 million in 2019, 2018 and 2017, respectively (see Note 27).

Other Receivables
Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses
Details and movements of allowance for credit losses as follows:

	December 31, 2019			
	Finance Receivables	Trade Receivables	Other Receivables	Total
		(In Thousands)		
Balance at beginning of year	**₱17,309,069**	**₱453,211**	**₱11,240**	**₱17,773,520**
Provisions during the year (Note 26)	**2,448,429**	**11,015**	**–**	**2,459,444**
Reversals during the year	**–**	**(142,017)**	**–**	**(142,017)**
Accounts charged off, transfers and others	**(1,334,270)**	**(501)**	**–**	**(1,343,769)**
Balance at end of year	**₱18,413,228**	**₱322,708**	**₱11,240**	**₱18,747,178**

	December 31, 2018 (As Restated, Note 37)			
	Finance Receivables	Trade Receivables	Other Receivables	Total
		(In Thousands)		
Balance at beginning of year	₱20,130,669	₱413,939	₱11,240	₱20,555,848
Provisions during the year (Note 26)	1,703,917	3,601	–	1,707,518
Accounts charged off, transfers and others	(4,525,517)	35,671	–	(4,489,846)
Balance at end of year	₱17,309,069	₱453,211	₱11,240	₱17,773,520

9. Inventories

Inventories consist of:

	2019	2018
	(In Thousands)	
At Cost:		
Consumer goods:		
Alcohol	₱3,011,993	₱3,247,739
Beverage	2,831,328	2,886,739
	5,843,321	6,134,478
Real estate inventories:		
Condominium and residential units for sale	457,731	507,099
Land held for future development	217,542	217,542
Subdivision land under development	3,927,357	4,543,419
	4,602,630	5,268,060
Fuel, materials and supplies	915,984	1,006,896
	11,361,935	12,409,434
At NRV - Materials and supplies	834,936	698,770
	₱12,196,871	₱13,108,204

Allowance for inventory obsolescence on materials and supplies amounted to ₱19.8 million and ₱4.1 million as of December 31, 2019 and 2018, respectively.

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

	2019	2018
	(In Thousands)	
Finished goods	₱1,046,445	₱667,515
Work in process	1,816,060	1,480,638
Raw materials	2,980,816	3,986,325
	₱5,843,321	₱6,134,478

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to ₱14.3 billion, ₱17.0 billion and ₱12.2 billion in 2019, 2018 and 2017, respectively (see Note 24).

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

	2019	2018
	(In Thousands)	
Balance at beginning of year	₱5,268,060	₱6,485,344
Effect of change in accounting policy on borrowing costs (Note 2)	(135,424)	–
Construction/development costs incurred	262,303	394,855
Transfer from (to) property, plant and equipment and investment properties (Notes 12, 13 and 35)	2,038	(282,918)
Disposals and others	(794,347)	(1,329,221)
Balance at end of year	₱4,602,630	₱5,268,060

10. Other Current Assets

	2019	2018
	(In Thousands)	
Creditable withholding taxes (CWT)	₱4,488,682	₱4,770,292
Advances to suppliers	1,629,372	907,300
Input VAT	1,519,068	1,432,793
Prepaid expenses	1,399,984	880,089
Deferred reinsurance premiums	1,135,113	985,966
Deferred rent	244,206	170,162
Excise tax (Note 38)	185,043	278,257
Stationeries, office supplies and stamps on hand	86,843	99,176
Miscellaneous cash and other cash items	86,542	412,055
Security deposit	44,132	129,309
Deferred charges	3,134	2,549
Others	557,146	411,318
	₱11,379,265	₱10,479,266

a. CWTs pertain mainly to the amounts withheld from income derived from sale of consumer goods and real estate inventories. The CWTs can be applied against any income tax liability of a company in the Group to which the CWTs relate.

b. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.

c. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages (see Note 38).

d. Prepaid expenses include prepaid importation charges amounting to ₱521.4 million and ₱114.3 million as of December 31, 2019 and 2018, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits.

e. Others include interoffice floats and advances to contractors.

11. Investment in Associates and Joint Ventures

Investments in Associates and Joint Ventures
The Group has the power to participate in the financial and operating policy decisions of PMFTC, Victorias Milling Company, Inc. (VMC), AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and ALI-Eton Property Development Corporation (AEPDC) which are jointly controlled entities.

	Ownership		Amount	
	2019	2018	2019	2018
			(In Thousands)	
Associates:				
PMFTC	49.6%	49.6%	₱18,418,620	₱12,818,935
VMC	30.9%	30.9%	2,898,208	2,648,053
APLII	44.0%	44.0%	2,605,473	2,415,414
AB HPI	50.0%	50.0%	–	274,897
Joint Ventures:				
ABI Pascual Holdings	50.0%	50.0%	21,171	30,516
AEPDC	50.0%	50.0%	3,310,806	2,126,326
			₱27,254,278	₱20,314,141

Investment in PMFTC
Details of investment in PMFTC are as follows:

	2019	2018
	(In Thousands)	
Acquisition cost	₱13,483,541	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	(908,866)	(2,909,390)
Equity in net earnings	15,396,195	8,461,642
Cash dividends (Note 22)	(9,778,726)	(6,461,118)
Balance at end of year	4,708,603	(908,866)
Accumulated share in other comprehensive income	226,476	244,260
	₱18,418,620	₱12,818,935

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines.

FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized a gain of about ₱293.0 million each year starting 2011 until 2017 and an outright loss of ₱2.0 billion in 2010, which are included in the "Equity in net earnings" in these periods. Further, as a result of the transfer of selected assets and liabilities, portion of the revaluation increment on FTC's property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

Summarized financial information of PMFTC, based on its financial statements as of December 31, are set out below:

	2019	2018
	(In Thousands)	
Current assets	₱47,037,934	₱28,979,372
Noncurrent assets	29,206,664	27,867,259
Current liabilities	13,449,004	9,637,631
Noncurrent liabilities	6,127,518	4,831,841
Equity	56,668,076	42,377,159
Equity interest of the Parent Company	49.6%	49.6%
Share in net assets of the acquiree	28,107,366	21,019,071
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	(9,688,746)	(8,200,136)
Carrying value of investment	₱18,418,620	₱12,818,935

Summarized financial information of PMFTC, based on its financial statements as at December 31, 2019 and 2018 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2019	2018	2017
		(In Thousands)	
Revenue	₱170,872,448	₱145,305,192	₱117,396,976
Costs and expenses	(126,819,405)	(121,412,768)	(105,523,675)
Income before income tax	44,053,043	23,892,424	11,873,301
Provision for income tax	(13,252,072)	(7,099,376)	(3,575,735)
Net income	30,800,971	16,793,048	8,297,566
Other comprehensive income	(35,854)	135,435	177,549
Total comprehensive income	₱30,765,117	₱16,928,483	₱8,475,115
Group's share of total comprehensive income for the year	₱16,305,060	₱8,461,462	₱4,366,968

Investment in VMC
Details of investment in VMC are as follows:

	2019	2018
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	₱1,459,768	₱1,459,768
Additions	–	–
Balance at end of year	1,459,768	1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	1,139,120	892,194
Equity in net earnings	251,171	246,926
Excess of fair value of net assets of associate over cost of investment	–	–
Balance at end of year	1,390,291	1,139,120
Share in remeasurement gain on defined benefit plans	(1,015)	(9,295)
Balance of convertible notes	58,460	58,460
	₱2,907,504	₱2,648,053

On February 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to ₱660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

On May 23, 2017, portions of the convertible notes amounting to ₱58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

The summarized financial information of VMC as of November 30, 2019 and 2018 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2019	2018
	(In Thousands)	
Current assets	₱2,919,787	₱3,427,476
Noncurrent assets	6,588,422	6,592,729
Current liabilities	1,246,250	2,190,518
Noncurrent liabilities	1,005,420	1,382,714
Equity	7,256,539	6,446,973
Equity interest of the Parent Company	30.9%	30.9%
Share in net assets of the acquiree	2,242,271	1,992,115
Fair value adjustments and others	665,233	655,938
Carrying value of investment	₱2,907,504	₱2,648,053

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

	2019	2018	2017
		(In Thousands)	
Revenue	**₱6,343,290**	₱6,080,583	₱9,218,976
Costs and expenses	**(5,296,131)**	(4,949,048)	(8,348,308)
Income before income tax	**1,047,159**	1,131,535	870,668
Provision for income tax	**(234,308)**	(332,421)	(289,427)
Net income	**812,851**	799,114	581,241
Other comprehensive income (loss)	**(3,285)**	(32,781)	(2,843)
Total comprehensive income	**809,566**	₱766,333	₱578,398
Group's share of total comprehensive income for the year	**₱250,156**	₱236,769	₱173,652

Investment in AB HPI
On May 6, 2016, AB HPI was incorporated and registered with the Philippine SEC for 1,000 authorized shares at ₱1,000 par value per share under the name of Broncobrew, Incorporated (Broncobrew). The Philippine SEC approved the change in corporate name of Broncobrew to AB Heineken Philippines Inc. on July 12, 2016.

On May 30, 2016, the Group, through ABI, purchased 500 shares of stock of AB HPI for a consideration amounting to ₱5.0 million. On November 15, 2016, the Group purchased additional 782,400 common shares out of the proposed increase in the authorized capital stock of AB HPI for a consideration of ₱782.4 million. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken, the Group sold nonmonetary assets, (i.e., inventories, returnable containers and brands), to AB HPI for a total consideration of ₱782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain from fair valuation amounting to ₱46.3 million.

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

	2019	2018
	(In Thousands)	
Beginning balance/acquisition cost	**₱787,400**	₱787,400
Accumulated equity in net earnings:		
Balance at the beginning of the year	**(512,503)**	210,336
Share in net loss of an associate	**(274,897)**	(722,839)
Balance at end of year	**(787,400)**	(512,503)
Ending balance	**₱–**	₱274,897
Cumulative unrecognized share in net losses in ABHPI	**₱441,743**	₱–

Summarized financial information of AB HPI as of December 31, 2019 and 2018 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2019	2018
	(In Thousands)	
Current assets	**₱3,423,754**	₱3,330,048
Noncurrent assets	**2,537,818**	2,190,077
Current liabilities	**3,088,271**	2,702,540
Noncurrent liabilities	**3,765,330**	2,276,335
Equity (capital deficiency)	**(892,029)**	541,250
	50%	50%
Share in net assets of the acquirer	**–**	270,625
Others	**–**	4,272
Carrying value of investment	**₱–**	₱274,897

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

	2019	2018
	(In Thousands)	
Revenue	**₱2,913,073**	₱2,889,832
Costs and expenses	**(4,346,353)**	(4,335,508)
Loss before income tax	**1,433,280**	1,445,676
Provision for income tax	**–**	–
Net loss	**1,433,280**	1,445,676
Other comprehensive loss	**–**	–
Total comprehensive loss	**1,433,280**	1,445,676
Group's share of total comprehensive loss for the year	**₱274,897**	₱722,838

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

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

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

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

The Group recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The deferred revenue amounting to ₱976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20). Amortization amounting to ₱36.5 million was recognized in 2016 (see Note 28). Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

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

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

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

Summarized financial information of APLII as of December 31, 2019 and 2018 follows:

	2019	2018
	(In thousands)	
Current assets	**₱1,287,221**	₱1,260,591
Noncurrent assets	**35,866,453**	28,363,443
Current liabilities	**1,130,146**	1,079,194
Noncurrent liabilities	**33,766,163**	26,504,728
Equity	**2,257,365**	2,040,112
Equity interest of the Parent Company	**44%**	44%
Share in net assets of the acquiree	**993,241**	897,649
Premium on acquisition	**1,601,389**	1,517,765
Carrying value of investment	**₱2,594,630**	₱2,415,414

Summarized statements of total comprehensive income of APLII for the year ended December 31 are as follows:

	2019	2018
	(In Thousands)	
Revenue	**₱3,721,320**	₱2,752,253
Costs and expenses	**(3,881,720)**	(2,602,153)
Net income (loss)	**(160,400)**	150,100
Other comprehensive income	**297,095**	128,594
Total comprehensive income	**₱136,695**	₱278,695
Group's share of total comprehensive income for the year	**₱60,145**	₱122,626

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

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

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

The Group determined that its advances to ABI Pascual Foods represents the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture.

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

	2019	2018
	(In thousands)	
Current assets	**₱250,991**	₱313,887
Noncurrent assets	**4,031**	1,957
Current liabilities	**205,670**	266,323
Noncurrent liabilities	**13,753**	–
Total equity	**35,599**	49,521

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

	2019	2018
	(In Thousands)	
Revenue	**₱353,909**	₱276,630
Costs and expenses	**(364,563)**	(284,356)
Loss before income tax	**(10,654)**	(7,726)
Provision for income tax	**381**	–
Net loss	**(11,035)**	(7,726)
Other comprehensive income	**–**	–
Total comprehensive loss	**(₱11,035)**	(₱7,726)
Group's share of total comprehensive loss for the year	**(₱5,518)**	(₱3,863)

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

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to ₱252.0 million.

On November 20, 2017, the Company made additional capital infusion amounting to ₱370.0 million for the joint venture's initial purchase of land in exchange for 370,000,000 common shares.

In 2018, the Company made additional capital infusion totaling to ₱1.5 billion for the joint venture's project planning and development and direct operating expenses.

Details of the investment in a joint venture as of December 31 are as follows:

	2019	2018
	(In Thousands)	
Beginning balance/acquisition cost	**₱2,176,000**	₱672,500
Additional capital infusion during the year	**1,195,000**	1,503,500
Accumulated equity in net earnings:		
Balance at the beginning of the year	**(49,674)**	–
Share in net loss of a joint venture*	**(8,973)**	(49,674)
Balance at end of year	**(58,647)**	(49,674)
Ending balance	**₱3,312,353**	₱2,126,326

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

Summarized financial information of AEPDC as of December 31, 2019 and 2018 follows:

	2019	2018
	(In thousands)	
Current assets	**₱12,780,696**	₱2,685,351
Noncurrent assets	**3,868,199**	9,720,940
Current liabilities	**7,783,092**	8,067,595
Noncurrent liabilities	**2,241,098**	897,227
Equity	**6,624,705**	3,441,469

Summarized statements of total comprehensive income of AEPDC for the year ended December 31 are as follows:

	2019	2018
	(In Thousands)	
Revenue	₱3,153,413	₱223,134
Costs and expenses	(3,126,471)	(292,911)
Income (loss) before income tax	26,942	(69,777)
Provision for income tax	47,982	11,677
Net loss	(21,040)	(58,100)
Other comprehensive income	–	–
Total comprehensive loss	(₱21,040)	(₱58,100)
Group's share of total comprehensive loss for the year	(₱10,520)	(₱29,050)

Disclosures on Subsidiary with Material Non-controlling Interest
Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2019	2018	2017
	(In Thousands)		
Accumulated balances of material non-controlling interest	₱2,882,039	₱47,290,358	₱45,546,934
Net income allocated to material non-controlling interest	79,726	3,095,918	3,722,621
Total comprehensive income allocated to material non-controlling interest	(14,705)	1,743,424	4,466,764

On February 9, 2013, PNB acquired 100% of the voting common stock of ABC. PNB accounted for the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's intercompany eliminations.

Statements of Comprehensive Income:

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Revenue	₱56,865,508	₱40,416,175	₱32,217,391
Cost of services	(19,143,606)	(9,784,000)	(6,339,368)
General and administrative expenses	(29,627,829)	(25,301,772)	(22,486,549)
Foreign exchange gains - net	1,105,918	942,372	1,676,927
Other income - net	3,209,264	7,344,532	5,733,233
Income before income tax	12,409,255	13,617,307	10,801,634
Provision for income tax	(2,470,986)	(3,663,744)	(2,314,935)
Net income	9,938,269	9,953,963	8,486,699
Other comprehensive income (loss)	4,821,405	(5,728,481)	1,709,495
Total comprehensive income	₱14,759,674	₱4,005,110	₱10,196,194
Net income attributable to:			
Equity holders of the Parent Company	₱9,858,543	₱6,637,673	₱4,834,451
Non-controlling interests	79,726	3,095,918	3,722,621
Total comprehensive income attributable to:			
Equity holders of the Parent Company	14,522,733	5,593,952	5,799,803
Non-controlling interests	(14,705)	2,695,099	4,466,764
Dividends declared to non-controlling interests	3,372	3,366	35,455

Statements of Financial Position:

	2019	2018
	(In Thousands)	
Current assets	₱488,857,140	₱435,407,693
Noncurrent assets	665,367,850	559,295,135
Current liabilities	865,580,704	776,308,797
Noncurrent liabilities	129,363,371	85,859,497
Equity attributable to:		
Equity holders of the Parent Company	156,398,876	129,639,681
Non-controlling interest	2,882,039	2,894,853

Statements of Cash Flows:

	2019	2018	2017
	(In Thousands)		
Operating	₱22,079,130	₱12,816,916	(₱1,637,026)
Investing	(66,100,996)	(51,680,279)	(2,913,544)
Financing	51,891,720	40,266,286	4,344,472
Net increase (decrease) in cash and cash equivalents	₱7,869,854	₱1,402,923	(₱206,098)

12. Property, Plant and Equipment

December 31, 2019

	At Appraised Values				At Cost							
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Right-of-Use Assets	Total
						(In Thousands)						
Cost												
Balance at beginning of year, as previously reported	₱40,432,488	₱20,947,525	₱28,362,171	₱89,742,184	₱6,846,941	₱2,569,749	₱4,192,636	₱12,504,073	₱1,713,838	₱27,827,237	₱–	₱117,569,421
Effect of adoption of PFRS 16 (Note 38)	–	–	–	–	–	–	–	–	–	–	3,126,156	3,126,156
Balance at beginning of year, as restated	40,432,488	20,947,525	28,362,171	89,742,184	6,846,941	2,569,749	4,192,636	12,504,073	1,713,838	27,827,237	3,126,156	120,695,577
Additions/transfers (Note 13)	4,232	483,278	1,593,260	2,080,770	346,564	304,970	415,081	1,347,474	949,644	3,363,733	461,918	5,906,421
Disposals/transfers/others (Note 28)	294,494	482,951	(1,377,068)	(599,623)	463,078	(101,247)	–	(240,206)	(1,281,189)	(1,159,564)	–	(1,759,187)
Balance at end of year	40,731,214	21,913,754	28,578,363	91,223,331	7,656,583	2,773,472	4,607,717	13,611,341	1,382,293	30,031,406	3,588,074	124,842,811
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning of year	1,480,271	6,839,475	21,104,677	29,424,423	4,271,514	1,855,410	3,172,144	10,710,742	–	20,009,810	–	49,434,233
Depreciation and amortization	126,335	560,746	964,503	1,651,584	382,717	245,787	303,997	1,093,261	–	2,025,762	654,329	4,331,675
Disposals/transfers/others (Note 28)	605,566	562,019	(832,172)	335,413	(107,390)	(161,932)	–	(888,315)	–	(1,157,637)	–	(822,224)
Balance at end of year	2,212,172	7,962,240	21,237,008	31,411,420	4,546,841	1,939,265	3,476,141	10,915,688	–	20,877,935	654,329	52,943,684
Net Book Value	₱38,519,042	₱13,951,514	₱7,341,355	₱59,811,911	₱3,109,742	₱834,207	₱1,131,576	₱2,695,653	₱1,382,293	₱9,153,471	₱2,933,745	₱71,899,127

December 31, 2018

	At Appraised Values				At Cost (As Restated, Note 37)						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Total
					(In Thousands)						
Cost											
Balance at beginning of year	₱17,026,911	₱19,913,315	₱27,511,183	₱64,451,409	₱5,321,740	₱2,167,740	₱3,984,854	₱11,868,428	₱1,011,378	₱24,354,140	₱88,805,549
Additions/transfers (Note 13)	10,121	483,170	902,054	1,395,345	298,272	432,067	242,686	1,399,115	1,368,319	3,740,459	5,135,804
Net increment in appraised value	23,273,320	(72,400)	–	23,200,920	–	–	–	–	–	–	23,200,920
Disposals/transfers/others (Note 28)	122,136	623,440	(51,066)	694,510	1,226,929	(30,058)	(34,904)	(763,470)	(665,859)	(267,362)	427,148
Balance at end of year	40,432,488	20,947,525	28,362,171	89,742,184	6,846,941	2,569,749	4,192,636	12,504,073	1,713,838	27,827,237	117,569,421
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	1,243,373	6,777,467	20,215,622	28,236,462	3,930,595	1,745,325	2,871,627	8,816,307	–	17,363,854	45,600,316
Depreciationand amortization	236,898	530,550	939,478	1,706,926	302,558	133,048	335,641	948,099	–	1,719,346	3,426,272
Disposals/transfers/others (Note 28)	–	(468,542)	(50,423)	(518,965)	38,361	(22,963)	(35,124)	946,336	–	926,610	407,645
Balance at end of year	1,480,271	6,839,475	21,104,677	29,424,423	4,271,514	1,855,410	3,172,144	10,710,742	–	20,009,810	49,434,233
Net Book Value	₱38,952,217	₱14,108,050	₱7,257,494	₱60,317,761	₱2,575,427	₱714,339	₱1,020,492	₱1,793,331	₱1,713,838	₱7,817,427	₱68,135,188

Right-of-use assets

December 31, 2019

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	₱1,817,349	₱1,185,608	₱73,661	₱49,538	₱3,126,156
Additions/transfers	461,918	–	–	–	461,918
Balance at end of year	2,279,267	1,185,608	73,661	49,538	3,588,074
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	–	–	–	–	–
Depreciation and amortization	568,067	70,542	4,911	10,809	654,329
Balance at end of year	568,067	70,542	4,911	10,809	654,329
Net Book Value	₱1,711,200	₱1,115,066	₱68,750	₱38,729	₱2,933,745

Revaluation of Land and Land Improvements, Plant Buildings and Machineries and Equipment
The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by Philippine SEC-accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2018, 2016 and 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2019	2018
	(In Thousands)	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	₱22,060,427	₱6,062,880
Net revaluation increase	(395,141)	16,737,049
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(734,614)	(739,502)
Balance at end of year	₱20,930,672	₱22,060,427
Attributable to:		
Equity holders of the Company	12,726,318	12,689,666
Non-controlling interests	8,204,354	9,370,761
	₱20,930,672	₱22,060,427

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using the cost model, the carrying amount would be as follows:

	2019	2018
	(In Thousands)	
Cost		
Land and land improvements	₱8,652,306	₱8,353,580
Plant buildings and improvements	17,066,131	16,099,902
Machineries and equipment	33,477,421	33,261,229
	59,195,858	57,714,711
Accumulated depreciation		
Land and land improvements	(3,408,293)	(3,425,704)
Plant buildings and improvements	(10,730,252)	(10,785,065)
Machineries and equipment	(15,146,362)	(15,223,734)
	(29,284,907)	(29,434,503)
	₱29,910,951	₱28,280,208

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

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Continuing operations:			
Cost of goods sold and services (Note 24)	₱1,490,522	₱945,656	₱1,070,108
Selling expenses (Note 25)	292,805	321,754	330,508
General and administrative expenses (Note 26)	2,548,348	2,158,862	1,780,146
	₱4,331,675	₱3,426,272	₱3,180,762

As of December 31, 2019 and 2018, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to AAC's major rehabilitation of plant facilities, which are expected to be completed in 2019, and PNB's construction of building.

Out of the total additions in 2019 and 2018, ₱180.4 million and ₱180.4 million remain to be unpaid as of December 31, 2019 and 2018, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of ₱92.6 million and ₱98.3 million are temporarily idle as of December 31, 2019 and 2018, respectively.

Borrowing Costs
Unamortized capitalized borrowing costs amounted to ₱10.6 million and ₱11.2 million as of December 31, 2019 and 2018, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2018, 2017 and 2016.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2019				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱22,137,643	₱11,397,724	₱7,620	₱4,179,574	₱37,722,561
Additions	845,792	166,338	35,551	1,579,446	2,627,127
Disposals/transfers/others	(833,430)	3,266,202	(1,075)	(3,294,549)	(862,852)
Balance at end of year	22,150,005	14,830,264	42,096	2,464,471	39,486,836
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,558,186	3,837,854	7,620	–	7,403,660
Depreciation	–	528,023	–	–	528,023
Provision for impairment losses	–	500,253	–	–	500,253
Disposals/transfers/others	(1,056,283)	(472,147)	(48,111)	–	(1,576,541)
Balance at end of year	2,501,903	4,393,983	(40,491)	–	6,855,395
Net Book Value	₱19,648,102	₱10,436,281	₱82,587	₱2,464,471	₱32,631,441

	December 31, 2018				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱22,461,823	₱10,667,848	₱7,620	₱2,635,507	₱35,772,798
Additions	1,720,164	351,347	–	2,264,255	4,335,766
Disposals/transfers/others	(2,044,344)	378,529	–	(720,188)	(2,386,003)
Balance at end of year	22,137,643	11,397,724	7,620	4,179,574	37,722,561
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,393,857	3,480,528	7,620	–	6,882,005
Depreciation	–	414,160	–	–	414,160
Provision for impairment losses	–	13,221	–	–	13,221
Disposals/transfers/others	164,329	(70,055)	–	–	94,274
Balance at end of year	3,558,186	3,837,854	7,620	–	7,403,660
Net Book Value	₱18,579,455	₱7,559,870	₱–	₱4,179,574	₱30,318,901

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱455.6 million and ₱307.8 million as of December 31, 2019 and 2018, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of ₱4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2019 and 2018, the Group's "Construction in progress" under the "Investment property" account pertains to the construction of building intended for leasing and which is expected to be completed in 2019.

Fair Values of Investment Properties
Below are the fair values of the investment properties as of December 31, 2019, which were determined by professionally qualified, accredited and independent appraisers based on market values *(in thousands)*:

Land	₱37,007,466
Buildings and improvements	16,935,051
	₱53,942,517

The fair value of investment properties of the Group was determined using acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties
Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱1,707.8 million and ₱446.9 million in 2019, ₱1,494.7 million and ₱373.6 million in 2018 and ₱1,388.0 million and ₱308.4 million in 2017, respectively (see Note 24). Rental income of the banking segment on its investment properties is presented under "Other income (charges)" (see Note 28).

Depreciation of investment properties charged to operations follows:

	2019	2018	2017
		(In Thousands)	
Cost of rental income (Note 24)	₱400,369	₱336,779	₱184,504
General and administrative expenses (Note 26)	127,654	77,381	160,495
	₱528,023	₱414,160	₱344,999

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2019	2018
	(In Thousands)	
Software costs	₱2,326,055	₱2,314,770
Advances to suppliers	1,324,642	1,838,352
Prepaid excise taxes (Note 38)	797,388	797,388
Deferred charges	743,727	622,035
Miscellaneous assets	843,967	–
Deferred input VAT	398,812	347,974
Creditable withholding taxes	380,442	–
Distribution network access	272,414	294,994
Net retirement plan assets (Note 23)	259,959	280,464
Refundable and security deposits	222,020	308,237
Chattel properties - net	168,661	109,265
Goodwill	163,735	163,735
Checks for clearing	7,079	499,792
Others - net	657,448	36,188
	8,566,349	7,613,194
Allowance for probable losses	(1,058,123)	(1,178,970)
	₱7,508,226	₱6,434,224

a. Movements in software costs are as follows:

	2019	2018
	(In Thousands)	
Balance at beginning of year	₱2,314,770	₱2,297,129
Additions	384,800	719,376
Amortization (Note 26)	(376,120)	(375,042)
Other adjustments	2,605	(326,693)
Balance at end of year	₱2,326,055	₱2,314,770

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

b. In 2018, the Group reclassified the prepaid excise taxes of TDI from "Other current assets" to "Other noncurrent assets" in light of the Court of Tax Appeals decision dated February 7, 2019.

c. Miscellaneous assets mainly pertain to interoffice floats. The bank provided allowance for probable losses on floats which are long outstanding.

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

e. Deferred input VAT arises mainly from the acquisition of capital goods.

f. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group's projects. These refundable deposits amounting to ₱222.0 million and ₱308.2 million as of December 31, 2019 and 2018, respectively, will be refunded upon termination of the service contract and completion of the projects' construction.

g. As of December 31, 2019 and 2018, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱94.5 million and ₱105.9 million, respectively.

h. The Group recognized goodwill which pertains mainly to ADI amounting to ₱144.7 million, respectively. As of December 31, 2019 and 2018, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI.

The recoverable amount of ADI is determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI's projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 7.0% and 9.7% in 2019 and 2018, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.2% as of December 31, 2019 and 6.7% as of December 31, 2018. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value-in-use. As of December 31, 2019 and 2018, the recoverable amount of ADI is higher than its carrying value.

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

As of December 31, 2019 and 2018, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. Collections from OPII in 2016 amounting to ₱500.0 million are recorded under "Other income (charges)" (see Note 28).

15. Deposit Liabilities

	2019	2018
	(In Thoustands)	
Demand	₱172,228,956	₱153,065,163
Savings	383,963,252	387,882,302
Time	262,046,747	178,613,954
	818,238,955	719,561,419
Presented as noncurrent	(46,095,883)	(47,219,123)
	₱772,143,072	₱672,342,296

Of the total deposit liabilities of the Group, ₱37.5 billion and ₱28.6 billion are non-interest bearing as of December 31, 2019 and 2018, respectively. Annual interest rates of the deposit liabilities follow:

	2019	2018
Foreign-currency denominated deposit liabilities	0.01% to 5.75%	0.01% to 8.00%
Peso-denominated deposit liabilities	0.10% to 6.00%	0.01% to 10.00%

Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 13.84% and 3.89%, respectively. As of December 31, 2019 and 2018, available reserves booked under "Due from BSP" amounted to ₱106.0 billion and ₱102.7 billion, respectively (see Note 5).

Long-term Negotiable Certificates of Time Deposits

Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2019	2018
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	₱4,563,212	₱–
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,155,043	–
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	6,323,898	6,316,699
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	3,751,954	3,747,669
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	5,362,599	5,355,858
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	6,995,398	6,985,553
October 21,2013	April 22, 2019	4,000,000	3.25%	Quarterly	–	3,998,167
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	–	4,999,279
		₱44,315,000			₱35,152,104	₱31,403,225

Other significant terms and conditions of the above LTNCDs follow:

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

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank pari passu and without any preference or priority among themselves and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under "Cost of banking services" amounted to ₱13.6 billion, ₱7.7 billion and ₱4.8 billion in 2019, 2018 and 2017, respectively (see Note 24).

In 2019, 2018 and 2017, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to ₱40.5 million, ₱39.3 million and ₱32.1 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱162.9 million and ₱91.8 million as of December 31, 2019 and 2018, respectively.

16. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to ₱245.6 million and ₱470.6 million as of December 31, 2019 and 2018, respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2019	2018
	(In Thousands)	
Bills payable to:		
BSP and local banks (Note 22)	₱52,664,371	₱67,792,569
Foreign banks	606,585	521,405
Others	–	3,000
	53,270,956	68,316,974
Acceptances outstanding	2,692,334	1,765,861
	55,963,290	70,082,835
Presented as noncurrent	(4,141,689)	(9,533,590)
	₱51,821,601	₱60,549,245

Annual interest rates are shown below:

	2019	2018	2017
Foreign currency-denominated borrowings	0.2% to 4.4%	0.0% to 4.4%	0.1% to 3.6%
Peso-denominated borrowings	4.0% to 5.4%	0.6% to 5.4%	0.6%

PNB's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (see Note 8).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing, with carrying value of ₱7.4 billion as of December 31, 2016 and was preterminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

- The lenders agree to provide PNB with a term loan facility of up to US$150.00 million (₱7.5 billion). PNB must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.

- The borrowing bears interest at 1.38% over USD LIBOR. PNB may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.

- PNB shall ensure that so long as any amount of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.

- PNB may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of US$1.0 million (₱49.7 million), subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2018, PNB has complied with the above debt covenants.

As of December 31, 2019 and 2018, bills payable with a carrying amount of ₱23.3 billion and ₱48.0 billion are secured by a pledge of financial assets at FVOCI with fair values of ₱8.1 billion and ₱11.3 billion, respectively, and investment securities at amortized cost with carrying values of ₱21.0 billion and ₱36.7 billion, respectively, and fair values of ₱21.6 billion and ₱39.5 billion, respectively (see Note 7).

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

a. Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
b. The term or life of this borrowing is up to three years;
c. Some borrowings bear a fixed interest rate while others have floating interest rate;
d. PNB has pledged its AFS and ATM investments, in form of ROP Global bonds, in order to fulfill its collateral requirement;
e. Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
f. Certain borrowings are subject to margin call up to US$ 1.4 million; and
g. Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable is included under "Cost of banking services" amounting to ₱2.2 billion in 2019, ₱0.7 billion in 2018 and ₱0.7 billion in 2017 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2019	2018
	(In Thousands)	
Trade payables	₱13,171,309	₱11,724,085
Nontrade payables	1,297,631	608,134
Accrued expenses:		
Purchase of materials and supplies and others	2,872,621	1,617,040
Interest	1,972,156	1,529,514
Other benefits - monetary value of leave credits	1,436,248	1,671,002
Taxes and licenses	1,161,301	994,408
Project development costs	1,024,700	1,097,299
PDIC insurance premiums	843,677	716,041
Retention payable	771,080	924,505
Advertising and promotional expenses	673,648	804,651
Rent and utilities payable	308,953	367,457
Information technology-related expenses	182,057	145,206
Due to government agencies	134,338	107,104
Output value added tax	120,775	113,898
Other payables	726,135	299,493
	₱26,700,462	₱22,719,837

Trade Payables
Trade payables are non-interest bearing and are normally settled on 30 to 60 days terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Project Development Costs
Accrued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Accrued Expenses
Other accrued expenses consist of accruals for commission, outside services, fuel and oil, and professional fees which are individually not significant as to amounts.

Retention Payable
Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Other Payables
Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. Short-term and Long-term Debts

Short-term Debts
As of December 31, 2019 and 2018, outstanding unsecured short-term debts amounted to ₱5,150.0 million and ₱2,050.0 million, respectively. The loans are subject to annual interest rates ranging from 6.3% to 7.3% in 2019 and 3.3% to 7.0% in 2018, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	2019	2018
	(In Thousands)	
Bonds payable	₱66,615,078	₱15,661,372
Lease liabilities (Notes 2 and 38)	3,247,876	–
Unsecured term loan	2,334,259	2,893,952
Notes payable	372,243	90,829
	72,569,456	18,646,153
Current portion	(1,002,593)	(90,829)
	₱71,566,863	₱18,555,324

PNB's Bonds Payable
4.25% USD 300 Million Fixed Rate Medium Term Note

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

As of December 31, 2019 and 2018, the unamortized transaction cost of bonds payable amounted to ₱421.7 million and ₱112.6 million. Amortization of transaction costs amounting to ₱98.5 million and ₱15.9 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income (Note 19).

PNB's Subordinated Debts

5.875% ₱3.5 Billion Subordinated Notes
On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.05%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of PNB to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% ₱6.5 Billion Subordinated Notes
On June 15, 2011, PNB's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

On June 16, 2016, PNB exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

In 2018 and 2017, amortization of transaction costs amounting to nil and ₱2.2 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

Unsecured term loans of Eton
On January 28, 2013, Eton entered into an unsecured term loan agreement with BDO amounting to ₱2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to ₱1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

In 2018, Parent Company entered into an unsecured term loan agreement with Bank of the Philippine Islands (BPI) amounting to ₱5.0 billion to finance the construction of the Eton's projects. On July 31, 2018, ₱0.5 billion was initially drawn and an additional ₱1.0 billion on September 26, 2018. The term loan with BPI has a nominal rate of 6.8% and 7.9% for the first and second drawdown, respectively. Principal repayments will commence three years from the date of initial borrowing, while interest payments are due quarterly.

Finance costs
Interest recognized on short-term and long-term debts, except for subordinated debts, are presented under "Finance costs" in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the "Cost of banking services" (see Note 24).

Compliance with debt covenants
As of December 31, 2019 and 2018, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. Other Liabilities

	2019	2018
	(In Thousands)	
Insurance contract liabilities	₱5,745,820	₱5,420,538
Payable to landowners	1,828,949	2,288,980
Interoffice floats	1,584,289	632,477
Reserve for unearned premiums	1,470,274	1,304,143
Managers' checks and demand drafts outstanding	1,393,535	1,545,888
Bills purchased - contra (Note 8)	1,348,148	1,396,318
Other deferred revenue (Note 12)	1,188,312	1,054,243
Other dormant credits	1,100,311	946,354
Customers' deposits	978,618	1,115,106
Provisions (Note 38)	969,106	969,106
Deposit on lease contracts	833,853	823,968
Due to Treasurer of the Philippines	681,835	571,235
Tenants' rental deposits	560,992	506,007
Due to other banks	538,612	919,838
Miscellaneous tax securities	414,051	216,165
Withholding taxes payable	385,294	518,233
Payment order payable	333,909	711,532
Margin deposits and cash letters of credit	224,873	44,383
Advance rentals	65,710	97,197
Others	342,995	426,125
	21,989,486	21,507,836
Presented as noncurrent	(3,147,053)	(4,999,297)
	₱18,842,433	₱16,508,539

Payables to Landowners
In various dates in 2014, Eton executed a ₱1,061.2 million promissory note, subject to interest rate of PDSTF 3 years plus 0.50% spread, to various landowners in relation to its purchase of land located in Laguna with total purchase price of ₱1.3 billion. In June 2017, the payment of the various promissory notes were extended for another three years.

Interest expense recognized related to these promissory notes amounted to ₱76.1 million, ₱65.9 million and ₱100.5 million in 2019, 2018 and 2017, respectively, net of capitalized portion amounting to ₱13.5 million in 2019, 2018 and 2017 (see Notes 12, 13 and 27).

Customers' Deposits
Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱978.6 million and ₱1,115.1 million as of December 31, 2019 and 2018, respectively.

Deposits and Other Deferred Credits
Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income (see Note 14).

Banking Segment Liabilities
Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit.

21. Derivative Financial Instruments

The tables in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVTPL") , together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2019 and 2018 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2019				December 31, 2018			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	₱23,951	₱179,106	₱50.64	₱1,042,766	₱1,710	₱97,106	₱53.11	₱482,974
JPY	2	–	0.01	666	24,985	16	0.01	6,018,002
HKD	–	–	–	–	874	36	0.13	219,355
CNY	39	–	0.14	2,000	33	–	0.14	1,000
GBP	278	–	1.31	1,700	211	–	1.26	1,100
EUR	39	2,114	1.11	11,173	60,822	74,001	1.15	385,712
SGD	3	–	0.74	23,394	–	–	–	–
SELL:								
USD	280,652	8,432	50.64	1,677,221	119,480	2,965	52.98	690,340
CAD	–	809	0.77	1,500	1,365	–	0.75	2,005
GBP	176	211	1.31	5,150	–	428	1.27	3,700
CHF	–	–	–	–	7	–	0.99	200
HKD	–	7,010	0.13	399,627	536	51,122	50.13	5,276,171
EUR	4,613	51	1.11	28,691	–	432	1.14	3,618
JPY	2,869	66	0.01	1,152,909	91	9,469	0.01	1,121,000
SGD	–	–	–	–	–	14	0.73	200
AUD	–	27	0.70	100	72	–	0.71	500
Interest rate swaps	60,418	47,687	–	–	307,089	235,059	–	–
Warrants	–	–	–	–	57,353	–	–	–
	₱373,040	₱245,513			₱574,628	₱470,648		

** The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.*

a. As of December 31, 2019 and 2018, PNB holds nil shares and 275,075 shares and 275,075 shares of ROP Warrants Series B1 at their fair value of US$1.1 million (₱52.58 million) and US$1.1 million (₱52.58 million), respectively.

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

	2019	2018
	(In Thousands)	
Balance at beginning of year		
Derivative assets	574,629	562,984
Derivative liabilities	470,649	343,522
	103,980	219,462
Changes in fair value		
Currency forwards and spots*	(663,118)	(899,453)
Interest rate swaps and warrants**	(3,733)	161
	(666,851)	(899,614)
Availments	690,292	782,810
Balance at end of year		
Derivative assets	373,040	574,628
Derivative liabilities	245,619	470,648
	127,421	103,980

** Presented as part of "Foreign exchange gains".*
*** Presented as part of "Trading and investment securities gains-net"*

The changes in fair value of the derivatives are included in "Trading and investments securities gains" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associates and Joint Ventures	Entities Under Common Control
Parent Company	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
Subsidiaries	Grand Cargo and Warehousing Services., Inc.
TDI and Subsidiaries	Basic Holdings Corporation
ADI	Foremost Farms Inc.
AAC	Grandspan Development Corp.
TBI	Himmel Industries Inc.
ABI and Subsidiaries	Lapu Lapu Packaging
Agua Vida Systems, Inc.	Lucky Travel Corporation
Interbev	Philippine Airlines, Inc.
Waterich	Rapid Movers & Forwarders Co. Inc.
Packageworld	Upright Profits Ltd.
AB Nutribev	Dyzum Distillery Inc.
Asia Pacific Beverage Pte Ltd	Heritage Holdings Corp.
Asia Pacific Beverage Myanmar Pte Ltd	Maxell Holdings, Corp.

(Forward)

Parent Company, Subsidiaries, Associates and Joint Ventures	Entities Under Common Control
FTC	Networks Holdings & Equities, Inc.
Shareholdings	Cube Factor Holdings, Inc.
Saturn	Trustmark Holdings Corporation
Paramount and Subsidiaries	Polima International Limited
Eton	Cosmic Holdings Corp.
BCI	Negros Biochem Corporation
ECI	Grandway Konstruct, Inc.
FHI	Harmonic Holdings Corp.
EPMC	Proton Realty & Development Corporation
Bank Holding Companies:	Billinge Investments Limited
Allmark Holdings Corp.	Step Dragon Co. Limited
Dunmore Development Corp.	High Above Properties Ltd.
Kenrock Holdings Corp.	Penick Group Limited
Leadway Holdings, Inc.	In Shape Group Ltd.
Multiple Star Holdings Corp.	Hibersham Assets Ltd.
Pioneer Holdings & Equities, Inc.	Orient Legend Developments Ltd.
Donfar Management Ltd.	Complete Best Development Ltd.
Fast Return Enterprises Ltd.	Cormack Investments Ltd
Mavelstone International Ltd.	Link Great International Ltd.
Uttermost Success, Ltd.	Bright Able Holdings Ltd.
Ivory Holdings, Inc.	
Merit Holdings & Equities Corp.	
True Success Profits Ltd.	
Key Landmark Investments Ltd.	
Fragile Touch Investments Ltd.	
Caravan Holdings, Corp.	

Parent Company, Subsidiaries, Associates and Joint Ventures	Entities Under Common Control
Solar Holdings Corp.	
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Kentwood Development Corp.	
La Vida Development Corp.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Total Holdings Corp.	
PNB and Subsidiaries	
Mabuhay Global Holding Company Pte. Ltd.	
Mabuhay Digital Philippines, Inc.	
Mabuhay Digital Technologies, Inc.	
Associates	
PMFTC	
VMC	
APLII	
AB HPI	
Joint Ventures	
ABI Pascual Holdings	
ABI Pascual Foods	
AEPDC	

The consolidated statements of income include the following revenue and other income-related (costs and other expenses) account balances arising from transactions with related parties:

	Nature	2019	2018	2017
			(In Thousands)	
Associates	Dividend income	₱9,778,726	₱6,461,118	₱4,086,596
	Purchases of inventories	(547,273)	(624,145)	(971,081)
	Sales	516,812	629,886	1,094,616
	Leases	35,100	35,100	35,100
Entities Under Common Control	Banking revenue - interest on loans and receivables	1,255,819	810,967	609,817
	Sales of consumer products	30,656	25,578	28,865
	Interest income on loans and advances	23,090	36,893	18,588
	Rent income	17,968	33,857	32,179
	Other income	73,199	221,417	124,894
	Freight and handling	(13,802)	(12,258)	(6,937)
	Purchases of inventories	(6,336)	(3,769)	(9,747)
Entities Under Common Control	Cost of banking services - interest expense on deposit liabilities	(246,104)	(189,801)	(75,798)
	Cost of goods sold and services	(2,035)	(1,442)	(41,485)
	Management and professional fees	(581,793)	(549,058)	(566,937)
	Outside services	(71,668)	(71,874)	(52,215)
	Rent expense	(23,698)	(23,721)	(53,361)
	Advertising expense	(130)	(16,136)	(12,329)
Key Management	Short-term employee benefits	(572,547)	(707,500)	(667,920)
	Post-employment benefits	(77,652)	(77,652)	(77,651)

The consolidated statements of financial position include the following asset (liability) account balances with related parties:

			Amount/Volume		Outstanding Balance	
	Financial Statement Account	Terms and Conditions	2019	2018	2019	2018
				(In Thousands)		
Parent Company	Due to related parties	On demand; non-interest bearing	₱–	₱–	(₱15,325)	(₱15,325)
	Due from related parties	On demand; non-interest bearing	–	–	509,000	509,000
Associates	Other receivables - dividends	Payable monthly	9,778,726	6,461,118	–	513,610
	Trade receivables	- do -	516,812	629,886	1,197,250	800,524
	Nontrade receivables	- do -	129,980	4,314	266,985	137,005
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(547,273)	(624,145)	(490,957)	(398,177)

	Financial Statement Account	Terms and Conditions	Amount/Volume 2019	Amount/Volume 2018	Outstanding Balance 2019	Outstanding Balance 2018
			(In Thousands)			
Entities Under Common Control	Finance receivables	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments	**₱1,255,819**	₱810,967	**₱39,487,080**	₱29,960,818
	Trade receivables	- do -	**30,656**	25,578	**14,298**	18,396
	Other receivables	- do -	**73,199**	221,417	**16,590**	16,730
	Due from related parties	On demand; non-interest bearing	**127**	(677)	**778,948**	1,519,632
	Advances to suppliers	- do -	**(2,035)**	(1,442)	**3,026**	4,110
	Deposit liabilities	With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year	**(916,094)**	(29,550,765)	**15,138,059**	16,054,153
	Account payable and other liabilitites	30 to 90 days terms; non-interest bearing	**(80,744)**	(7,816)	**(376,414)**	(295,670)
	Due to related parties	On demand; non-interest bearing	**14,874**	(22,301)	**(50,000)**	(64,874)
	Other payables	30 to 90 days terms; non-interest bearing	**–**	–	**–**	–

As of December 31, 2019 and 2018, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- On April 10, 2019 and March 13, 2018, LTG declared cash dividends of ₱0.30 and ₱0.20 per share to all stockholders of record as of April 29, 2019 and March 28, 2018, respectively, of which ₱2.4 billion in 2019 and ₱1.6 billion in 2018 were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to ₱9.8 billion in 2019 and ₱6.5 billion in 2018(see Note 11).

- The Group purchases raw materials such as raw and refined sugar and molasses from VMC.

- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract. As of December 31, 2019 and 2018, the related rent receivable for the lease of land amounted to ₱101.3 million and ₱74.6 million, respectively.

- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to ₱423.3 million. In 2019 and 2018, ABI rendered services in favor of ABHP related to supplies, both imported and locally-purchased, advertising expense, promotions, professional fees, engineering fee and shared expenses in the plant.

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under "Outside services" in "Cost of goods sold" and "Professional fees" in the "General and administrative expenses".

- The property development segment purchases parcels of land from other related parties for use in its various projects.

- Several entities under common control maintain peso and foreign currency denominated deposits and short-term and long-term loans with PNB. Interest income and financing charges related to these transactions are reported under "Banking revenue" and "Cost of banking services", respectively (see Note 24).

23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2019 and 2018, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

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

	2019	2018
	(In Thousands)	
Net retirement plan assets:		
FTC	**₱246,112**	₱250,314
TDI	**2,648**	15,138
AAC	**–**	6,270
TBI	**3,011**	–
LTG	**8,188**	8,742
	₱259,959	₱280,464
Net retirement benefits liabilities:		
PNB and subsidiaries	**₱776,936**	₱1,223,830
ABI and subsidiaries	**749,049**	363,324
ADI	**29,578**	19,230
AAC	**15,452**	–
Eton	**128,728**	31,754
	₱1,699,743	₱1,638,138

The following tables summarize the components of net retirement plan assets and net retirement benefits liability recognized in the consolidated statements of financial position, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2019 Defined Benefit Obligations	2019 Fair Value of Plan Assets	2019 Net Retirement Plan Assets	2018 Defined Benefit Obligations	2018 Fair Value of Plan Assets	2018 Net Retirement Plan Assets	2017 Defined Benefit Obligations	2017 Fair Value of Plan Assets	2017 Net Retirement Plan Assets
					(In Thousands)				
Beginning balance	**₱201,030**	**(₱481,494)**	**(₱280,464)**	₱233,740	(₱507,450)	(₱273,710)	₱228,448	(₱505,318)	(₱276,870)
Change in status of retirement plan	**–**	**–**	**–**	–	–	–	–	–	–
Net retirement benefits expense (income) in profit or loss:									
Current service cost	**10,478**	**(1,380)**	**9,098**	18,885	–	18,885	18,376	–	18,376
Net interest cost	**7,389**	**(26,178)**	**(18,789)**	8,549	(23,948)	(15,399)	7,581	(21,823)	(14,242)
	17,867	**(27,558)**	**(9,691)**	27,434	(23,948)	3,486	25,957	(21,823)	4,134
Contributions	**(655)**	**(3,620)**	**(4,275)**	–	(1,733)	(1,733)	–	(1,200)	(1,200)
Benefits paid	**(3,995)**	**3,995**	**–**	(27,160)	27,160	–	(10,487)	10,487	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**32,296**	**–**	**32,296**	(27,330)	–	(27,330)	(8,250)	–	(8,250)
Demographic assumptions	**–**	**(8,841)**	**–**	–	–	–	–	–	–
Experience adjustments	**11,927**	**(911)**	**11,016**	(5,654)	24,477	18,823	(1,928)	10,404	8,476
	44,223	**(9,752)**	**34,471**	(32,984)	24,477	(8,507)	(10,178)	10,404	226
Ending balance	**₱258,470**	**(₱518,429)**	**(₱259,959)**	₱201,030	(₱481,494)	(₱280,464)	₱233,740	(₱507,450)	(₱273,710)

Net retirement benefits liabilities:

	2019 Defined Benefit Obligations	2019 Fair Value of Plan Assets	2019 Accrued Retirement Benefits	2018 (As restated, Note 37) Defined Benefit Obligations	2018 (As restated, Note 37) Fair Value of Plan Assets	2018 (As restated, Note 37) Accrued Retirement Benefits	2018 (As restated, Note 37) Defined Benefit Obligations	2018 (As restated, Note 37) Fair Value of Plan Assets	2018 (As restated, Note 37) Accrued Retirement Benefits
					(In Thousands)				
Beginning balance	**₱9,239,745**	**(₱7,601,607)**	**₱1,631,868**	₱9,528,099	(₱7,304,618)	₱2,223,481	₱10,193,817	(₱6,294,475)	₱3,899,342
Change in status of retirement plan	**–**	**–**	**–**	–	–	–	–	–	–
Net retirement benefits cost in profit or loss:									
Current service cost	**625,316**	**–**	**625,316**	669,842	–	669,842	756,172	–	756,172
Net interest cost	**542,042**	**(431,789)**	**110,253**	365,052	(258,042)	107,010	435,361	(234,088)	201,273
Past service cost	**3,774**	**–**	**3,774**	361,144	–	361,144	–	–	–
	1,171,132	**(431,789)**	**739,343**	1,396,038	(258,042)	1,137,996	1,191,533	(234,088)	957,445
Contributions	**(1,000)**	**(1,904,683)**	**(1,905,683)**	–	(759,541)	(759,541)	–	(1,472,899)	(1,472,899)
Benefits paid from plan assets	**(419,579)**	**419,579**	**–**	(620,292)	620,292	–	(584,444)	584,444	–
Benefits paid directly from book reserves	**(20,590)**	**–**	**(20,590)**	(12)	–	(12)	–	–	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	**1,322,604**	**–**	**1,322,604**	(1,101,246)	–	(1,101,246)	(330,733)	–	(330,733)
Demographic assumptions	**(26,893)**	**–**	**(26,893)**	(55,844)	–	(55,844)	(682,083)	–	(682,083)
Experience adjustments	**69,174**	**(116,350)**	**(47,176)**	93,002	100,302	193,304	(318,920)	153,077	(165,843)
	1,364,885	**(116,350)**	**1,248,535**	(1,064,088)	100,302	(963,786)	(1,331,736)	153,077	(1,178,659)
Ending balance	**₱11,334,593**	**(₱9,634,850)**	**₱1,699,743**	₱9,239,745	(₱7,601,607)	₱1,638,138	₱9,469,170	(₱7,263,941)	₱2,205,229

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

	2019	2019
	(In Thousands)	
Cash and cash equivalents	₱142,365	₱1,138,054
Receivables	22,375	2,266,478
Equity investments:		
Financial institutions	313,744	526,927
Other	–	332,518
Debt investments:		
Investment in private debt securities	49,393	2,380,927
Investments in government securities	419,520	1,369,171
Others	–	29,090
Fair value of plan assets	₱947,397	₱8,043,165

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

	2019	2018
Cash and cash equivalents	15%	14%
Receivables	2%	28%
Equity investments	33%	11%
Debt investments	50%	47%
Fair value of plan assets	100%	100%

	2019	2018	2017
Discount rate	4.7%-5.1%	7.2%-8.1%	5%-6%
Future salary increases	4.0%-8.0%	4.0%-8.0%	5%-10%

As of December 31, 2019, the discount and future salary increase rates are 4.7%-5.1% and 4-8%, respectively.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations as of the end of the reporting period, assuming all other assumptions were held constant *(in thousands)*:

	2019		2018	
	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	0.50%	(474,462)	0.50%	(442,591)
	-0.50%	(315,804)	-0.50%	493,225
Future salary increases	1.00%	(230,197)	1.00%	520,535
	-1.00%	(537,972)	-1.00%	(473,867)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 0.5% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group *(in thousands)*:

	2019	2018
One year and less	1,348,317	1,104,046
More than one year up to five years	5,106,816	4,295,709
More than five years up to 10 years	4,775,894	5,092,120
More than 10 years up to 15 years	3,326,514	4,077,971
More than 15 years	50,368,706	41,143,623

The Group expects to contribute ₱1.1 billion to the defined benefit pension plan in 2020. The average duration of the defined benefit obligations at the end of the reporting period range from 16.0 years as of December 31, 2019 and 16.5 to 27 years as of December 31, 2018.

Transactions with Retirement Plans
Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). The fair value of the plan assets as of December 31, 2019 and 2018 for the Group includes investments in the PNB shares of stock with fair value amounting to ₱305.0 million and ₱321.2 million classified as financial assets at FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2019 and 2018, financial assets at FVTPL and at amortized costs include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts placement with BSP.

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

24. Revenue and Cost of Goods Sold and Services

Revenue consist of:

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Banking revenue (Note 5)	₱56,615,631	₱40,243,028	₱32,124,835
Sale of consumer goods	34,495,786	32,188,132	29,653,729
Rental income (Note 13)	1,707,833	1,494,724	1,388,010
Real estate sales	1,424,598	1,704,011	845,053
	₱94,243,848	₱75,629,895	₱64,011,627

Dissagregated revenue information
Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2019 *(in thousands)*:

	Goods/ Services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	Total
Sale of consumer goods	₱34,495,786	₱–	₱–	₱34,495,786
Service fees and commission income	5,176,500	–	–	5,176,500
Real estate sales	–	1,424,598	–	1,424,598
Interest income	–	–	50,364,653	50,364,653
Rental income	–	–	1,707,833	1,707,833
Trading and securities gains - net	–	–	1,074,478	1,074,478
	₱39,672,286	₱1,424,598	₱53,146,964	₱94,243,848

Banking revenue consists of:

	2019	2018 (As Restated, Note 37)	2017 (As Restated, Note 37)
		(In Thousands)	
Interest income on:			
Loans and receivables	₱39,618,639	₱29,966,403	₱22,401,283
Trading and investment securities (Note 21)	9,425,264	4,714,234	3,432,877
Deposits with banks and others	652,539	777,813	1,330,145
Interbank loans receivable	668,211	379,378	219,366
	50,364,653	35,837,828	27,383,671
Service fees and commission income	5,176,500	4,259,284	3,982,496
Trading and securities gains - net	1,074,478	145,916	758,668
	₱56,615,631	₱40,243,028	₱32,124,835

Sale of consumer goods consists of:

	2019	2018	2017
		(In Thousands)	
Gross sales	₱37,323,117	₱34,671,217	₱31,557,067
Less sales returns, discounts and allowances	2,827,331	2,483,085	1,903,338
	₱34,495,786	₱32,188,132	₱29,653,729

Cost of goods sold and services consists of:

	2019	2018	2017
		(In Thousands)	
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	₱14,326,602	₱17,046,895	₱12,221,165
Depreciation and amortization (Note 12)	1,578,423	1,457,186	1,420,401
Fuel and power	1,192,723	1,156,867	915,246
Taxes and licenses	6,141,929	1,095,280	4,521,002
Personnel costs	959,764	952,168	841,325
Communication, light and water	820,024	803,313	765,499
Outside services	501,097	469,040	458,124
Repairs and maintenance	512,175	440,679	412,990
Freight and handling	435,428	278,824	228,191
Others	530,317	1,097,523	851,317
	26,998,482	24,797,775	22,635,260
Cost of banking services	18,696,210	9,584,973	6,302,228
Cost of real estate sales (Note 9)	663,789	1,209,101	433,875
Cost of rental income (Note 13)	444,087	373,553	308,447
Cost of goods sold and services	₱46,802,568	₱35,965,402	₱29,679,810

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

Cost of banking services consist of:

	2019	2018	2017
		(In Thousands)	
Interest expense on:			
Deposit liabilities (Note 15)	₱13,577,503	₱7,672,146	₱4,767,830
Bills payable and other borrowings (Notes 7 and 17)	2,185,046	662,340	747,481
Bonds payable	1,945,497	477,405	–
Services fees and commission expense	988,164	773,082	786,917
	₱18,696,210	₱9,584,973	₱6,302,228

25. Selling Expenses

	2019	2018	2017
		(In Thousands)	
Advertising and promotions	₱1,458,151	₱1,222,569	₱1,268,650
Freight and handling	560,738	511,970	500,420
Depreciation and amortization (Note 12)	292,805	321,754	330,508
Managament, consulting and professional fees	170,507	154,138	137,136
Personnel costs	130,180	128,334	131,429
Commissions	101,545	85,455	35,364
Royalties	72,239	63,680	49,663
Fuel and oil	28,939	59,270	39,783
Materials and consumables	37,901	19,485	12,167
Repairs and maintenance	32,860	12,723	40,957
Others	125,559	121,009	146,348
	₱3,011,424	₱2,700,387	₱2,692,425

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

26. General and Administrative Expenses

	2019	2018	2017 (As Restated, Note 37)
		(In Thousands)	
Personnel costs	₱10,399,515	₱10,275,662	₱9,680,647
Taxes and licenses	5,113,559	4,061,968	2,791,913
Depreciation and amortization (Notes 12, 13 and 14)	3,052,122	2,152,690	1,780,146
Provision for credit losses (Note 8)	2,459,444	1,707,518	1,211,683
Insurance	1,874,192	1,623,032	1,457,699
Outside services	1,860,478	1,700,161	1,519,014
Marketing and promotional	1,141,243	1,178,340	928,613
Occupancy	1,040,989	1,773,055	1,584,930
Management, consulting and professional fees	1,031,532	949,608	933,482
Policyholder benefits and claim benefits	909,975	1,292,949	322,244
Information technology	818,896	568,141	446,393
Travel and transportation	453,325	402,167	355,668
Litigation	326,588	73,787	80,139
Communication, light and water	314,066	304,738	255,531
Materials and consumables	286,716	313,388	248,210
Repairs and maintenance	230,192	249,940	224,062
Freight and handling	78,884	69,940	104,490
Fuel and oil	11,767	12,001	27,355
Provision for (reversal of) legal cases and other losses - net (Notes 13 and 38)	–	(240,110)	(300,730)
Others	1,317,247	1,340,869	933,322
	₱32,720,730	₱29,809,844	₱24,584,811

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

27. Finance Costs and Finance Income

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

	2019	2018	2017
		(In Thousands)	
Finance costs (Note 19):			
Short-term debts	**₱166,018**	₱100,722	₱–
Unsecured term loan and notes payable (Note 20)	**284,823**	44,735	141,937
	₱450,841	₱145,457	₱141,937
Finance income			
Cash and other cash items (Note 5)	**146,253**	172,212	119,369
Interest-bearing contracts receivable (Note 8)	**–**	14,324	16,473
FVTPL (Note 6)	**–**	20,105	20,183
AFS investments (Note 7)	**–**	–	1,075
	₱146,253	₱206,641	₱157,100

28. Other Income (Charges)

	2019	2018	2017 (As Restated, Note 37)
		(In Thousands)	
Net insurance premium	**₱1,151,705**	₱1,228,794	₱656,329
Rental income and dues (Note 13)	**892,391**	766,295	597,612
Net gains on sale or exchange of assets	**814,920**	6,086,834	4,163,507
Marketing allowance and income from wire transfers	**344,090**	479,053	355,224
Rooms and other operated departments	**181,862**	93,246	85,112
Dividend income	**145,704**	87,517	62,143
Reversal of provision for expected credit loss	**(142,017)**	–	–
Recoveries from charged off assets	**76,362**	58,584	67,582
Management fees	**24,170**	16,043	15,939
Gain on retirement	**14,838**	6,644	6,869
(Forward)			

	2019	2018	2017 (As Restated, Note 37)
		(In Thousands)	
Mark-to-market gain on financial assets designated at FVTPL (Note 6)	**₱17,800**	₱17,234	₱59,513
Referral, processing and trust fees	**–**	3,011	3,448
Gain on disposal of AFS investments	**–**	–	7,914
Others	**473,477**	223,447	(647,032)
	₱3,995,302	₱9,066,702	₱5,434,160

a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2019, 2018 and 2017 amounting to ₱48.6 million, ₱5,703.5 million and ₱3,755.5 million, respectively.

b. Others include income and expense items mainly relating to banking operations, which are individually not significant as to amounts.

29. Income Taxes

Income taxes include the corporate income tax, which is discussed below, and final taxes paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as "Provision for income tax" in the consolidated statements of income.

Under Philippine tax laws, PNB and its certain subsidiaries are subject to percentage and other taxes (presented as "Taxes and Licenses" in the consolidated statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. Republic Act No. 9294, an act restoring the tax exemption of OBUs and FCDUs, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

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

	2019		2018	
	Net Deferred Income Tax Assets(1)	**Net Deferred Income Tax Liabilities(2)**	Net Deferred Income Tax Assets(3)	Net Deferred Income Tax Liabilities(4)
		(In Thousands)		
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	**₱5,764,478**	**₱97,356**	₱7,122,093	₱81,379
Inventories	**1,440**	**1,223**	1,440	1,223
Property, plant and equipment	**–**	**50,202**	–	50,768
Accumulated depreciation on investment properties	**836,233**	**(14,700)**	673,617	–
Unrealized losses on:				
Inventories on hand	**–**	**4,603**		
Sale of property to a subsidiary	**384,523**	**4,529**	384,523	–
Financial assets at FVPL and at FVTOCI	**29,450**	**–**	25,996	–
Deferred rent income	**234,397**	**–**	183,340	–
Net retirement benefits liabilities	**586,029**	**262,478**	398,168	212,288
Reserves and others	**47,379**	**1,872**	84,192	14,711
Deferred rent expense	**–**	**52**	60,835	22
Advance rentals	**5,609**	**32,147**	29,917	–
Accrued expenses	**488,322**	**19,225**	757,918	–
Difference between accounting and tax carrying amount of property, plant and equipment	**–**	**–**	16,059	–
(Forward)				

	2019		2018	
	Net Deferred Income Tax Assets(1)	**Net Deferred Income Tax Liabilities(2)**	Net Deferred Income Tax Assets(3)	Net Deferred Income Tax Liabilities(4)
		(In Thousands)		
Difference between tax and book basis of accounting for real estate and banking transactions	**₱–**	**₱–**	₱6,724	₱–
Excess MCIT	**–**	**–**	6,634	–
Unamortized past service cost	**4,474**	**5,703**	505	8,629
Reserve for unearned premiums	**–**	**–**	–	–
NOLCO	**–**	**–**	–	–
Provision for losses	**–**	**–**	–	–
Unrealized forex losses	**104**	**4,811**	–	–
Difference between right-of-use assets and lease liabilities	**1,044**	**74,090**	–	–
	8,383,482	**543,591**	9,751,961	369,020
Deferred income tax liabilities on:				
Fair value gain on investment properties	**(1,164,193)**	**–**	(1,248,724)	(17,550)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	**(405,545)**	**(30,354)**	(620,039)	(30,354)
Gain on re-measurement of a previously held interest	**(164,429)**	**–**	(164,429)	–
Unrealized foreign exchange gains	**(329,047)**	**(11,995)**	(124,753)	(15,951)
Borrowing cost capitalized to property, plant, and equipment	**(3,175)**	**(108,728)**	(61,306)	(9,277)
Deferred rental income	**(2,536)**	**(99,844)**	(40,884)	(22,376)
Difference between tax and book basis of accounting for real estate transactions	**(6,976)**	**(37,189)**	(14,130)	–
Unamortized debt cost	**–**	**(5,600)**	(7,383)	–
Gain on asset share swap	**–**	**(443,110)**	–	(443,110)
Net retirement plan assets	**771**	**(116,939)**	–	(115,032)
Net changes in fair values of FVTPL financial assets	**(78,637)**	**–**	–	(4,940)
Others	**(54,335)**	**(32,415)**	(129,493)	(9,952)
	(2,208,102)	**(886,174)**	(2,411,141)	(668,542)
	6,175,380	**(342,583)**	7,340,820	(299,522)
Recognized directly in equity:				
Deferred income tax assets on:				
Remeasurement losses on retirement benefits	**2,524**	**45,108**	–	31,382
Deferred income tax liabilities on:				
Revaluation increment on property, plant and equipment	**(3,777,969)**	**(8,065,255)**	(5,275,474)	(8,135,937)
Remeasurement gains on defined benefit plans	**(13,264)**	**(53,084)**	(140,122)	(133,745)
Unrealized gains on changes in fair value of financial assets at FVTOCI	**–**	**(94,314)**	–	(278,635)
	(3,791,233)	**(8,212,653)**	(5,415,596)	(8,548,317)
	(3,788,709)	**(8,167,545)**	(5,415,596)	(8,516,935)
	₱2,386,671	**(₱8,510,128)**	₱1,925,224	(₱8,816,457)

(1) *Pertain to IPI, ADI, Eton and PNB*
(2) *Pertain to LTG, Saturn, PLI, AAC, TDI, ABI, PWI and FTC*
(3) *Pertain to PWI, IPI, ADI, Eton and PNB*
(4) *Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC*

b. Provision for current income tax consists of:

	2019	2018	2017
		(In Thousands)	
RCIT	**₱2,711,115**	₱3,971,339	₱2,957,961
MCIT	**2,251**	6,750	11,350
Final tax	**1,497,485**	830,958	636,527
Provision for current income tax	**₱4,210,851**	₱4,809,047	₱3,605,838

c. As of December 31, 2019 and 2018, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

	2019	2018
	(In Thousands)	
Allowance for credit losses	**₱7,512,006**	₱4,757,081
Accrued expenses	**58,711**	2,883,285
Net retirement benefits liability	**819,428**	2,474,408
Unrealized loss on AFS investments	**–**	1,173,243
Derivative liabilities	**180,759**	182,904
Unamortized past service cost	**1,908,144**	1,241,452
Allowance for inventory obsolescence	**9,938**	10,894
NOLCO	**543,149**	326,066
Excess MCIT	**7,314**	21,516
Others	**261,182**	153,134

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	₱103,937	₱–	(₱23,807)	₱80,130	N/A
2016	135,658	(85,228)	(50,430)	–	2019
2017	78,503	–	–	78,503	2020
2018	415,512	(188,934)	–	226,578	2021
2019	157,938	–	–	157,938	2022
	₱891,548	(₱274,162)	(₱74,237)	₱543,149	

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2016	₱3,846	₱–	(₱3,846)	₱–	2019
2017	6,225	(3,240)	–	2,985	2020
2018	6,797	(3,393)	–	3,404	2021
2019	925	–	–	925	2022
	₱17,793	(₱6,633)	(₱3,846)	₱7,314	

d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2019	2018	2017
		(In Thousands)	
Provision for income tax at statutory income tax rate from:			
Continuing operations	**₱7,586,748**	₱7,723,393	₱5,423,313
Adjustments resulting from:			
Equity in net earnings of associates	**217,708**	(1,717,520)	(1,188,987)
Income subjected to final tax	**(1,103,293)**	(982,900)	(922,414)
Nontaxable income	**(3,708,409)**	(549,727)	(442,855)
Non-deductible expenses	**1,711,882**	314,284	400,757
Non-deductible deficiency taxes	**25,904**	–	–
Effect of availment of ITH	**(51,911)**	–	–
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	**(875,332)**	64,685	306,365
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	**(24,949)**	(37,435)	(52,926)
Difference of itemized deduction against 40% of taxable income	**(51,750)**	–	(26,198)
Others	**(29,284)**	(21,619)	–
Provision for income tax	**₱3,697,314**	₱4,793,161	₱3,497,055

30. Equity

Capital Stock

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

Authorized capital stock at ₱1 par value	
At beginning and end of year	25,000,000,000 shares
Issued capital stock at ₱1 par value:	
At beginning and end of year	₱10,821,388,889

a. Capital stock is held by a total of 375 and 370 stockholders as of December 31, 2019 and 2018, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	₱1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
March 1966	6,000,000	1.00
October 1995	247,500,000	1.00
October 2011	398,138,889	4.22
April 2013	1,840,000,000	20.50

In April 2013, LTG issued ₱1,840.0 million shares for ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to ₱59.0 million were charged directly to "General and administrative expenses".

a. On March 13, 2018, LTG's BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.05 per share or a total of ₱2,164.28 million to all stockholders of record as of March 28, 2018, to be paid not later than April 11, 2018.

b. On April 10, 2019, LTG's BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.15 per share or a total of ₱3,246.42 million to all stockholders of record as of April 29, 2019, to be paid not later than May 9, 2019.

c. Retained earnings include undistributed earnings amounting to ₱76.4 billion in 2019, ₱76.4 billion in 2018, and ₱65.5 billion in 2017, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates. Retained earnings available for dividend declaration as at December 31, 2019 amounted to ₱14.5 billion.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of stock of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2019 and 2018.

Preferred Shares of Subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22). Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under "Preferred shares of subsidiary issued to Parent Company" were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the Philippine SEC are presented under "Deposit for future stock subscription" as of December 31, 2013. Upon approval of the Philippine SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent. As of December 31, 2018 and 2017, preferred shares of the subsidiary issued to the Parent Company amounted to ₱18.1 billion.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves

Other equity reserves as at December 31, 2019 and 2018 consist of *(in thousands)*:

	2019	2018
Equity adjustments arising from business combination under common control (Note 1)	**₱445,113**	₱445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	**413,769**	193,212
Effect of transaction with non-controlling interest	**66,658**	66,658
Effect of sale of a subsidiary to Company	**99,655**	99,655
Effect of sale of direct interest in a subsidiary	**(543)**	(543)
	₱1,024,652	₱804,095

Shares of Stock of the Company Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2019 and 2018 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2019	2018	2017
		(In Thousands)	
Balance as of January 1, as previously reported	**₱58,223,689**	₱47,000,912	₱42,506,591
Effect of adoption of:			
PFRS 9	**–**	(712,042)	–
PFRS 15	**–**	(106)	–
Balance as of January 1, as adjusted	**58,223,689**	46,288,764	42,506,591
Net income attributable to non-controlling interests	**4,448,233**	4,363,483	3,749,883
Share in other comprehensive income, net of deferred income tax effect:			
Revaluation increment on property plant and equipment	**(170,223)**	7,041,741	–
Cumulative translation adjustments	**(456,101)**	282,883	218,809
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	**(305,881)**	254,047	416,293
Net changes in AFS investments (Note 7)	**2,805,235**	74,783	134,878
Share in remeasurement gain on defined benefit plans of associates	**–**	–	(25,542)
Reserves of disposal group classified as held for sale	**–**	(62,655)	–
Dividends received	**(3,372)**	(19,357)	–
Acquisition of shares of subsidiaries from the Controlling Shareholders	**2,539,185**	–	–
Other equity reserves	**5,264**		
Balance as of December 31	**₱67,086,029**	₱58,223,689	₱47,000,912

31. Basic/Diluted Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

	2019	2018	2017
		(In Thousands)	
Net income attributable to equity holders of the Company	**₱23,117,524**	₱16,194,778	₱10,830,773
Divided by weighted-average number of shares	**10,821,389**	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	**₱2.14**	₱1.50	₱1.00

There are no potential common shares with dilutive effect on the basic earnings per share in 2019, 2018 and 2017.

32. Financial Risk Management Objectives and Policies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BOD of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group.

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

The Group's banking activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's banking segment continuing profitability.

The Group monitors its processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Interest Rate Risk in Banking Book (IRRBB)
- Stratefic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- establishing recommended limits based on the results of its analysis of exposures.

<u>Credit Risk</u>
For the banking segment, credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The banking segment manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Group in identifying, assessing and managing credit risk include:
- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio
  c. adequacy of loan loss reserves
  d. trend of nonperforming loans (NPLs)

e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by PNB and documentary/commercial LCs which are written undertakings by PNB.

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

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

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

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The banking segment is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group's banking segment is shown below:

	Consolidated			
	2019			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
	(In Millions)			
Securities held under agreements to resell	**₱2,518**	**₱2,518**	**₱–**	**₱2,518**
Loans and receivables:				
Receivables from customers*:				
Corporates	**540,584**	**287,490**	**378,128**	**162,456**
Local government units (LGU)	**6,729**	**130**	**6,694**	**35**
Credit Cards	**14,264**	**–**	**14,264**	**–**
Retail small and medium enterprises (SME)	**18,943**	**28,248**	**5,494**	**13,449**
Housing Loans	**32,017**	**28,805**	**12,633**	**19,385**
Auto Loans	**12,861**	**13,688**	**9,681**	**3,180**
Others	**10,897**	**18,436**	**2,778**	**8,119**
Other receivables	**20,973**	**5,515**	**18,278**	**2,695**
	₱659,786	**₱384,830**	**₱447,950**	**₱211,837**

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated (As Restated, Note 37)			
	2018			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱20,700	₱19,947	₱753	₱19,947
Loans and receivables:				
Receivables from customers*:				
Corporates	471,255	349,173	413,165	58,090
LGU	6,850	203	6,647	203
Credit Cards	12,336	–	12,336	–
Retail SME	11,079	19,751	5,448	5,631
Housing Loans	32,570	32,011	12,442	20,127
Auto Loans	11,512	10,948	8,410	3,102
Others	16,995	13,689	12,985	4,011
Other receivables	23,420	11,841	12,645	10,774
	₱606,717	₱457,563	₱484,831	₱121,885

**Receivables from customers exclude residual value of the leased asset (Note 10).*

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 38 to the financial statements.

Excessive risk concentration
The banking segment's credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the banking segment constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   The internal limits set by the Parent Company for group exposures are as folows:
   CRR 1-12 – up to 95% of the regulatory Single Borrowers Limit (SBL)
   CRR 13-18 – up to of the regulatory SBL
   CRR 18-26 – up to 50% of the regulatory SBL

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

b. Geographic Concentration
   The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2019	2018
	(In Millions)	
Philippines	**₱900,502**	₱804,098
Asia (excluding the Philippines)	**95,755**	75,285
USA and Canada	**16,555**	14,328
Oceania	**–**	8,449
Other European Union Countries	**6,521**	1,684
United Kingdom	**23,753**	1,573
Middle East	**2,468**	17
	₱1,045,554	₱905,434

c. Concentration by Industry
   The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2019			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
	(In Millions)			
Primary target industry:				
Financial intermediaries	**₱106,952**	**₱23,769**	**₱42,590**	**₱173,311**
Wholesale and retail	**88,529**	**–**	**–**	**88,529**
Electricity, gas and water	**72,582**	**4,618**	**–**	**77,200**
Transport, storage and communication	**31,625**	**144**	**–**	**31,769**
Manufacturing	**45,365**	**352**	**–**	**45,717**
Public administration and defense	**15,627**	**–**	**–**	**15,627**
Agriculture, hunting and forestry	**9,716**	**–**	**–**	**9,716**
Secondary target industry:				
Government	**–**	**155,871**	**108,500**	**264,371**
Real estate, renting and business activities	**87,039**	**22,826**	**–**	**109,865**
Construction	**41,520**	**–**	**–**	**41,520**
Others**	**158,313**	**29,494**	**121**	**187,928**
	₱657,268	**₱237,074**	**₱151,211**	**₱1,045,553**

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

	2018			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	₱91,280	₱32,396	₱133,431	₱257,107
Electricity, gas and water	82,870	–	–	82,870
Wholesale and retail	72,395	3,825	–	76,220
Manufacturing	41,994	393	–	42,387
Transport, storage and communication	49,142	446	–	49,588
Public administration and defense	18,008	–	–	18,008
Agriculture, hunting and forestry	7,280	–	–	7,280
Secondary target industry:				
Government	962	102,331	22,149	125,442
Real estate, renting and business activities	83,004	359	–	83,363
Construction	25,852	14,605	–	40,457
Others**	113,231	8,581	900	122,712
	₱586,018	₱162,936	₱156,480	₱905,434

* *Loans and receivables exclude residual value of the leased asset.*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".*

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12% for priority industry, 8% for regular industry, 30% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets

In 2018, the banking segment re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions. Moreover, the banking segment has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the banking segment's exposures can be categorized as either Non-Retail and Retail. Non-Retail segment of the banking segment may be defined as debt obligation of a sovereign, financial intuition, corporation, partnership, or proprietorship. In particular, the banking segment's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, GOCCs, LGUs. Retail exposures are exposures to individual person or persons or to a small business and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

Loans and Receivables
The credit quality of Non-Retail segment is evaluated and monitored using external ratings and internal credit risk rating system. In 2018, the banking segment transitioned to a new internal credit risk rating system but maintained the 2-dimensional structure; that is, there is still a borrower risk rating (BRR) and the facility risk rating (FRR).

Specific borrower rating models were developed by the banking segment to capture specific and unique risk characteristics of each of the Non-Retail segment. The borrower risk rating is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well.

The banking segment uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

Facility Risk Rating on the other hand assesses potential loss of the banking segment in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e., FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g., CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the banking segment in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the banking segment's receivables from customers are defined below:

Credit quality	**26-grade CRR system Used beginning January 1, 2018**
High S&P Equivalent Global Rating: AAA to BBB-	*BRR 1 Excellent* Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. *BRR 2 Very Strong* Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. *BRR 3 Strong* Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. *BRR 4-6 Good* Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. *BRR 7-9 Satisfactory* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility BRR 8 is minimal/low. *BRR 10-12 Adequate* Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.

Credit quality	**26-grade CRR system Used beginning January 1, 2018**
Standard S&P Equivalent Global Rating: BB+ to BB-	*BRR 13-15 Average* Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility. *BRR 16-18 Acceptable* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. *BRR 19-20 Vulnerable* Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility
Substandard S&P Equivalent Global Rating: B+ to CCC-	*BRR 21-22 Weak* Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments. Default is more than a possibility. *BRR 23-25 Watchlist* Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	*BRR 26 Default* Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the banking segment's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31:

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	**₱1,568**	**₱–**	**₱–**	**₱1,568**
Standard	**450,194**	**2,477**	**19**	**452,690**
Substandard	**65,136**	**13,318**	**311**	**78,765**
Impaired	**–**	**–**	**10,655**	**10,655**
	516,898	**15,795**	**10,985**	**543,678**
Subject to Scoring & Unrated				
Non-Retail	**11,194**	**358**	**450**	**12,002**
Corporate	**4,490**	**289**	**423**	**5,202**
LGU	**6,704**	**69**	**27**	**6,800**
Retail	**69,064**	**2,795**	**11,261**	**83,120**
Auto Loans	**11,443**	**459**	**1,067**	**12,969**
Housing Loans	**26,601**	**1,571**	**5,396**	**33,568**
Retail SME	**17,437**	**345**	**2,931**	**20,713**
Credit Card	**13,583**	**420**	**1,867**	**15,870**
Others	**10,699**	**737**	**579**	**12,015**
	90,957	**3,890**	**12,290**	**107,137**
	₱607,855	**₱19,685**	**₱23,275**	**₱650,815**

	2018			
	Stage 1	Stage 2	Stage 3	Total
		(In Millions)		
Subject to CRR				
Non-Retail - Corporate				
High	₱246,665	₱1,158	₱–	₱247,823
Standard	160,963	3,171	–	164,134
Substandard	39,019	845	–	39,864
Impaired	–	–	4,725	4,725
	446,647	5,174	4,725	456,546
Subject to Scoring & Unrated				
Non-Retail	22,672	4,809	65	27,546
Corporate	15,795	4,791	40	20,626
LGU	6,877	18	25	6,920
Retail	67,148	589	2,660	70,397
Auto Loans	11,682	21	40	11,743
Housing Loans	33,650	36	157	33,843
Retail SME	10,068	139	1,192	11,399
Credit Card	11,748	393	1,271	13,412
Others	13,797	585	4,964	19,346
	103,617	5,983	7,689	117,289
	₱550,264	₱11,157	₱12,414	₱573,835

The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	Consolidated				
	2019				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
			(In Millions)		
LGU	**₱–**	**₱69**	**₱–**	**₱27**	**₱96**
Credit Card	**–**	**420**	**–**	**1,867**	**2,287**
Retail SME	**366**	**345**	**903**	**2,028**	**3,642**
Housing Loans	**422**	**1,571**	**1,340**	**4,057**	**7,390**
Auto Loans	**157**	**460**	**273**	**793**	**1,683**
Others	**66**	**737**	**184**	**395**	**1,382**
Total	**₱1,011**	**₱3,602**	**₱2,700**	**₱9,167**	**₱16,480**

	Consolidated				
	2018				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
			(In Millions)		
LGU	₱2,601	₱18	₱25	–	₱2,644
Credit Card	1	393	1,231	40	1,665
Retail SME	449	139	305	887	1,780
Housing Loans	–	16	152	5	173
Auto Loans	1	22	3	36	62
Others	101	585	1,385	3,579	5,650
Total	₱3,153	₱1,173	₱3,101	₱4,547	₱11,974

Trading and Investment Securities and Other Financial Assets
In ensuring quality investment portfolio, PNB uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e., Moody's Investors Service) as follows:

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

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

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

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

Below are the financial assets of the banking segment, excluding receivables from customers, which are monitored using external ratings.

	December 31, 2019					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
			(In Millions)			
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱105,982	₱105,982
Due from other banks	5,038	3,090	7,990	16,118	1,643	17,761
Interbank loans receivables	9,595	13,182	435	23,212	1,627	24,839
Securities held under agreements to resell	–	–	–	–	2,520	2,520
Financial assets at FVTOCI						
Government securities	460	2,125	88,335	90,920	129	91,049
Private debt securities	3,443	3,330	6,367	13,140	17,250	30,390
Quoted equity securities	–	–	160	160	912	1,072
Unquoted equity securities	–	–	–	–	630	630
Investment securities at amortized cost:						
Government securities	–	–	55,305	55,305	290	55,595
Private debt securities	1,408	22,281	9,288	32,977	15,678	48,655
Financial asset at amortized cost:						
Others[4/]	–	–	5,965	5,965	19,353	25,318

	December 31, 2018					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
			(In Millions)			
Due from BSP[1/]	₱–	₱–	₱4,058	₱4,058	₱98,665	₱102,723
Due from other banks	8,757	5,845	2,843	17,445	3,558	21,003
Interbank loans receivables	3,260	7,386	453	11,099	149	11,248
Securities held under agreements to resell	–	–	–	–	20,700	20,700
Financial assets at FVTOCI						
Government securities	1,078	–	32,447	33,525	–	33,525
Private debt securities	404	4,794	4,447	9,645	8,074	17,719
Quoted equity securities	–	–	183	183	617	800
Unquoted equity securities	–	–	–	–	86	86
Investment securities at amortized cost:						
Government securities	2,251	1,261	50,793	54,485	5,793	60,278
Private debt securities	152	–	2,737	2,889	41,408	44,297
Financial asset at amortized cost:						
Others[4/]	–	–	–	–	28,430	28,430

[1/] *'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.*

[2/] *Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)*

Liquidity Risk and Funding Management

The banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	December 31, 2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱30,501	₱–	₱–	₱–	₱–	₱30,501
Due from BSP and other banks	123,755	–	–	–	–	123,755
Interbank loans receivable	19,539	2,295	1,517	–	1,921	25,272
Securities held under agreements to resell	2,520	–	–	–	–	2,520
Financial assets at FVTPL:						
Government securities	2	–	965	–	9,874	10,841
Private debt securities	–	405	9	–	3,605	4,019
Equity securities	–	–	–	–	1,455	1,455
Investment in UITFs	7	–	–	–	–	7
Derivative assets:						
Gross contractual receivable	50,516	15,145	1,051	1,089	266	68,067
Gross contractual payable	(50,248)	(15,049)	(1,034)	(1,067)	(204)	(67,602)
	268	96	17	22	62	465
Financial Assets at FVTOCI:						
Government securities	100	9,247	7,100	6,788	103,867	127,102
Private debt securities	289	1,255	475	2,764	29,551	34,334
Equity securities	1,701	–	–	–	–	1,701
Investment securities at amortized cost						
Government securities	759	10	2,205	1,002	67,026	71,002
Private debt securities	11,016	11,617	1,276	1,150	28,510	53,569
Financial assets at amortized cost:						
Receivables from customers	106,847	77,393	34,688	27,025	420,935	666,888
Other receivables	12,718	697	2,787	201	10,698	27,101
Other assets	421	–	–	–	55	476
Total financial assets	₱310,443	₱103,015	₱51,039	₱38,952	₱677,559	₱1,181,008
Financial Liabilities						
Deposit liabilities:						
Demand	₱172,229	₱–	₱–	₱–	₱–	₱172,229
Savings	391,770	–	–	–	–	391,770
Time and LTNCDs	154,612	48,317	17,170	9,753	49,383	279,235
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	34,974	15,820	841	1,069	216	52,920
Gross contractual receivable	(35,114)	(15,896)	(865)	(1,089)	(210)	(53,174)
	(140)	(76)	(24)	(20)	6	(254)
Bills and acceptances payable	18,063	17,836	3,221	33	16,858	56,011
Bonds Payable	–	–	–	–	75,601	75,601
Accrued interest payable and accrued other expenses payable	1,254	708	473	404	275	3,114
Other liabilities	11,914	–	–	–	1,075	12,989
Total financial liabilities	₱749,702	₱66,785	₱20,840	₱10,170	₱143,198	₱990,695

	December 31, 2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets						
COCI	₱16,825	₱–	₱–	₱–	₱–	₱16,825
Due from BSP and other banks	123,249	–	–	–	–	123,249
Interbank loans receivable	9,054	3,700	4	412	16,187	29,357
Securities held under agreements to resell	20,714	–	–	–	–	20,714
Financial assets at FVTPL:						
Government securities	116	301	135	682	10,120	11,354
Private debt securities	8	–	–	–	537	545
Equity securities	1	4	54	64	415	538
Investment in UITFs	6	–	–	–	1	7
Derivative assets:						
Gross contractual receivable	27,667	10,536	60	112	683	39,058
Gross contractual payable	(27,520)	(10,490)	(43)	(82)	(411)	(38,546)
	147	46	17	30	272	512
Financial Assets at FVTOCI:						
Government securities	316	554	3,726	1,193	28,390	34,179
Private debt securities	319	153	485	2,757	14,375	18,089
Equity securities	–	–	–	–	886	886
Investment securities at amortized cost						
Government securities	685	1,141	1,741	7,563	60,260	71,390
Private debt securities	1,237	12,857	1,430	2,469	31,929	49,922
Financial assets at amortized cost:						
Receivables from customers	91,597	71,843	29,824	15,112	471,459	679,835
Other receivables	3,246	246	89	3,807	19,045	26,433
Other assets	670	–	–	–	135	805
Total financial assets	₱268,190	₱90,845	₱37,505	₱34,089	₱654,011	₱1,084,640
Financial Liabilities						
Deposit liabilities:						
Demand	₱153,065	₱–	₱–	₱–	₱–	₱153,065
Savings	401,622	–	–	–	–	401,622
Time and LTNCDs	60,076	48,436	19,756	12,648	46,732	187,648
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	21,313	4,168	59	112	626	26,278
Gross contractual receivable	(21,151)	(4,104)	(44)	(85)	(431)	(25,815)
	162	64	15	27	195	463
Bills and acceptances payable	21,220	31,471	7,651	1,731	9,251	71,324
Bonds Payable	–	–	335	335	18,045	18,715
Accrued interest payable and accrued other expenses payable	530	546	319	478	719	2,592
Other liabilities	9,375	80	11	4,958	1,484	15,908
Total financial liabilities	₱646,050	₱80,597	₱28,087	₱20,177	₱76,426	₱851,337

Market Risks

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets.

The succeeding sections provide discussion on the impact of market risk on the banking segment's trading and structural portfolios.

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

a. Objectives and limitations of the VaR methodology
The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

b. VaR assumptions/parameters
VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

c. Backtesting
The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

d. Stress Testing
To complement the VaR approximations, the banking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

e. VaR Limits
Since VaR is an integral part of the banking segment's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the banking segment. VaR is computed on an undiversified basis; hence, the banking segment does not consider the correlation effects of the three trading portfolios.

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
		(In Millions)		
December 29, 2019	**₱13.13**	**₱278.29**	**₱26.39**	**₱317.81**
Average Daily	**8.98**	**472.54**	**17.44**	**498.96**
Highest	**27.50**	**1,160.34**	**34.89**	**1,222.73**
Lowest	**0.54**	**89.02**	**2.32**	**91.88**
December 29, 2018	5.27	523.30	4.59	533.16
Average Daily	3.49	292.78	2.98	299.25
Highest	14.85	574.50	5.04	594.39
Lowest	0.45	93.54	0.48	94.47

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Structural Market Risk of the Banking Segment

Non-trading Market Risk
Interest rate risk
The banking segment seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the banking segment to interest rate risk. PNB measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The following table sets forth the repricing gap position of the banking segment:

	2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱27,273	₱1,575	₱564	₱128	₱94,140	₱123,680
Interbank loans receivable and securities held under agreements to resell	22,442	3,469	1,279	–	159	27,349
Receivables from customers and other receivables - gross**	148,095	58,598	26,796	8,019	98,959	340,467
Total financial assets	₱197,810	₱63,642	₱28,639	₱8,147	₱193,258	₱491,496
Financial Liabilities*						
Deposit liabilities:						
Savings	₱107,429	₱38,894	₱20,766	₱13,055	₱211,626	₱391,770
Time***	149,496	34,112	9,859	9,964	26,464	229,895
Bonds payable	–	–	–	–	66,615	66,615
Bills and acceptances payable	33,718	17,038	1,838	732	2,637	55,963
Total financial liabilities	₱290,643	₱90,044	₱32,463	₱23,751	₱307,342	₱744,243
Repricing gap	(92,833)	(26,402)	(3,824)	(15,604)	(114,084)	(252,747)
Cumulative gap	(₱92,833)	(₱119,235)	(₱123,059)	(₱138,663)	(₱252,747)	₱–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets (Note 10).*
*** *Excludes LTNCD.*

	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
			(In Millions)			
Financial Assets*						
Due from BSP and other banks	₱17,189	₱2,227	₱359	₱114	₱103,360	₱123,249
Interbank loans receivable and securities held under agreements to resell	27,252	4,294	–	403	–	31,949
Receivables from customers and other receivables - gross**	133,599	49,477	14,250	10,655	85,552	293,533
Total financial assets	₱178,040	₱55,998	₱14,609	₱11,172	₱188,912	₱448,731
Financial Liabilities*						
Deposit liabilities:						
Savings	₱103,372	₱51,010	₱17,410	₱9,855	₱219,974	₱401,621
Time***	54,243	29,115	12,695	7,291	43,867	147,211
Bonds payable	–	–	–	–	15,662	15,662
Bills and acceptances payable	26,010	29,626	9,334	438	4,675	70,083
Total financial liabilities	₱183,625	₱109,751	₱39,439	₱17,584	₱284,178	₱634,577
Repricing gap	(5,585)	(53,753)	(24,830)	(6,412)	(95,266)	(185,846)
Cumulative gap	(₱5,585)	(₱59,338)	(₱84,168)	(₱90,580)	(₱185,846)	₱–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets (Note 10).*
*** *Excludes LTNCD.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2019		2018	
	Income Before Income Tax	Equity	Income Before Income Tax	Equity
		(In Millions)		
+50bps	₱574	₱574	₱321	₱321
-50bps	(574)	(574)	(321)	(321)
+100bps	1,147	1,147	643	643
-100bps	(1,147)	(1,147)	(643)	(643)

As one of the long-term goals in the risk management process, the banking segment has has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The banking segment takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

The banking segment's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The banking segment believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the banking segment is involved.

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2019			December 31, 2018		
	USD	Others*	Total	USD	Others	Total
			(In Millions)			
Assets						
COCI and due from BSP	₱149	₱335	₱484	₱138	₱331	₱469
Due from other banks	9,638	6,084	15,722	8,777	9,814	18,591
Interbank loans and securities held under agreements to resell	4,880	2,095	6,975	2,869	1,950	4,819
Loans and receivables	22,726	11,047	33,773	18,453	11,377	29,830
Financial Assets at FVTPL	352	–	352	447	1	448
AFS investments/Financial Assets at FVTOCI	1,434	503	1,937	4,180	1,326	5,506
Financial assets at amortized cost/HTM investments	10,061	–	10,061	10,207	775	10,982
Other assets	5,402	2,686	8,088	3,539	1,238	4,777
Total assets	54,642	22,750	77,392	48,610	26,812	75,422
Liabilities						
Deposit liabilities	7,364	5,194	12,558	9,288	9,261	18,549
Derivative liabilities	7	7	14	1	2	3
Bills and acceptances payable	27,942	13,298	41,240	8,549	26,778	35,327
Accrued taxes, interest and other expenses	154	32	186	76	107	183
Other liabilities	1,217	945	2,162	1,391	1,136	2,527
Total liabilities	36,684	19,476	56,160	19,305	37,284	56,589
Net Exposure	₱17,958	₱3,274	₱21,232	₱29,305	(₱10,472)	₱18,833

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

Information relating to the banking segment's currency derivatives is contained in Note 21.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies
The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks (consisting of foreign exchange risk, interest rate risk and equity price risk).

Credit Risk
The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group.

In addition, credit risk of property development segment is managed primarily through analysis of receivables on a continuous basis. The credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

Concentration risk
Concentrations arise when a number of counterparties are engaged in similar business activities having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. Concentration risk per business segment could arise on the following:

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets
"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

Set out below is the information about the credit risk exposure on the Company's financial assets using provision matrix (in millions):

As of December 31, 2019:

	Cash in banks	Due from related parties	Trade and other receivables					Total
			Current	Days past due				
				< 30 days	30-60 days	61-90 days	> 90 days	
Expected credit loss rate	**–%**	**–%**	**0.13% - 82.00%**	**0.13% - 78.9%**	**0.13% - 36.00%**	**0.13% - 93.06%**	**5.00% - 47.00%**	
Estimated total gross carrying amount at default	**₱3,322.7**	**₱2,029.4**	**₱6,934.0**	**₱2,097.7**	**₱2,327.6**	**₱1,274.3**	**₱2,552.3**	**₱15,185.9**
Expected credit loss	**₱–**	**₱–**	**₱1.2**	**₱5.8**	**₱10.1**	**₱14.2**	**₱302.6**	**₱333.9**

As of December 31, 2018:

	Cash in banks	Due from related parties	Trade and other receivables					Total
			Current	Days past due				
				< 30 days	30-60 days	61-90 days	> 90 days	
Expected credit loss rate	–%	–%	0.01% - 8.07%	0.25% - 11.50%	0.40% - 1.57%	0.64% - 2.05%	36.15% - 49.61%	
Estimated total gross carrying amount at default	₱28,863.5	₱2,028.6	₱15,030.3	₱2,228.3	₱1,471.3	₱1,532.7	₱4,330.9	₱24,593.5
Expected credit loss	₱–	₱–	₱1.5	1.6	1.9	₱3.3	₱456.2	₱464.5

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management *(in millions)*:

	2019			2018		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Cash and other cash items	**₱3,323**	**₱–**	**₱3,323**	₱4,473	₱–	₱4,473
Trade receivables	**14,940**	**–**	**14,940**	14,311	–	14,311
Other receivables	**3,401**	**–**	**3,401**	6,387	–	6,387
Due from related parties	**2,029**	**–**	**2,029**	2,028	–	2,028
Refundable deposits	**178**	**–**	**178**	179	–	179
Financial assets at FVTPL	**7**	**–**	**7**	784	–	784
	₱23,878	**₱–**	**₱23,878**	₱28,162	₱–	₱28,162

	2019			2018		
	Less than one year	**1 to less than 3 years**	**Total**	Less than one year	1 to less than 3 years	Total
Short term debts	**₱3,323**	**₱–**	**₱3,323**	₱2,050	₱–	₱2,050
Accounts payable and other liabilities*	**14,940**	**–**	**14,940**	7,668	–	7,668
Long-term debts	**443**	**3,705**	**4,148**	91	2,803	2,894
Due to related parties	**65**	**–**	**65**	336	–	336
Other liabilities	**2,456**	**1,519**	**3,975**	161	2,239	2,400
	₱21,227	**₱5,224**	**₱26,451**	₱10,306	₱5,042	₱15,348

**Excluding non-financial liabilities amounting to ₱134.3 million and ₱221.0 million as of December 31, 2019 and 2018, respectively.*

Market Risks of the Group other than the Banking Segment
The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Equity price risk
Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2019, 2018 and 2017, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by ₱310.4 million, ₱310.4 million and ₱327.4 million, respectively, if equity prices will increase by 19.4%, 19.4% and 10.3%, respectively. An equal change in the opposite direction would have decrease equity by the same amount.

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2019 and 2018, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

Foreign currency risk
The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

33. Offsetting of Financial Assets and Financial Liabilities

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2019						
Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of Financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative assets (Notes 6 and 21)	**₱74,965,186**	**(₱74,592,146)**	**₱373,040**	**(₱45,891)**	**₱–**	**₱327,149**
Securities sold under agreements to repurchase (Note 8)	**2,517,764**	**–**	**2,517,764**	**–**	**(2,517,745)**	**19**
	₱77,482,950	**(₱74,592,146)**	**₱2,890,804**	**(₱45,891)**	**(₱2,517,745)**	**₱327,168**

December 31, 2018						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	₱46,075,448	(₱45,569,485)	₱505,963	(₱58,838)	₱–	₱447,125
Securities sold under agreements to repurchase (Note 8)	20,700,000	–	20,700,000	–	(19,947,247)	752,753
	₱66,775,448	(₱45,569,485)	₱21,205,963	(₱58,838)	(₱19,947,247)	₱1,199,878

Financial liabilities

December 31, 2019						
Financial assets recognized at end of reporting period by type	**Gross carrying Amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the consolidated statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of Financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	**₱60,131,350**	**(₱59,885,731)**	**₱245,619**	**(₱155,245)**	**₱–**	**₱90,374**
Securities sold under agreements to repurchase (Note 8)*	**23,268,257**	**–**	**23,268,257**	**–**	**(29,655,404)**	**(6,387,147)**
Total	**₱83,399,607**	**(₱59,885,731)**	**₱23,513,876**	**(₱155,245)**	**(₱29,655,404)**	**₱6,296,773**

** Included in bills and acceptances payable in the consolidated statement of financial position.*

Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of Financial collateral	Net exposure [c-d]
December 31, 2018						
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative liabilities (Notes 16 and 21)	₱32,870,042	(₱33,325,851)	(₱455,809)	₱92,025	₱–	₱363,784
Securities sold under agreements to repurchase (Note 17)*	48,035,239	–	48,035,239	–	(50,776,539)	–
Total	₱80,905,281	(₱33,325,851)	₱47,579,430	₱92,025	(50,776,539)	₱363,784

** Included in bills and acceptances payable in the consolidated statement of financial position.*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated statements of financial position after initial recognition. Recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statements of financial position at the end of each reporting period. These include financial assets and liabilities at FVTPL and AFS investments. Non-recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated statement of financial position in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

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

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

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

As of December 31, 2019 and 2018, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2019		December, 31, 2018 (As Restated, Note 37)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets:				
Financial assets at amortized cost	**₱100,464,757**	**₱101,580,817**	₱99,772,711	₱96,187,595
Loans and receivables:				
Receivables from customers	**636,950,500**	**695,304,130**	561,351,072	561,366,817
	₱737,415,257	**₱796,884,947**	₱661,123,783	₱657,554,412
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	**₱226,894,643**	**₱226,525,853**	₱147,210,729	₱144,481,264
Bills payables	**53,270,956**	**56,049,095**	68,316,974	68,305,178
Long-term debts:				
Subordinated debt	**3,497,797**	**3,551,484**	3,497,797	3,551,484
Unsecured term loan	**2,334,259**	**2,051,108**	2,893,952	2,631,179
Bonds payable	**66,615,078**	**69,640,930**	15,661,372	16,019,776
LTNCD	**35,152,104**	**35,311,473**	31,403,225	28,517,657
Other liabilities:				
Payable to landowners	**1,828,949**	**1,828,949**	911,826	904,506
Tenants' rental deposits	**560,992**	**560,992**	506,007	491,929
	₱390,154,778	**₱395,519,884**	₱270,401,882	₱264,902,973

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

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

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

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

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

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

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

Time deposit liabilities, bills payable with long term maturity and subordinated debt including designated at FVTPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges, from 0.25% to 3.75% and 3.00% to 4.25% as of December 31, 2019 and 2018, respectively.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following assets and liabilities measured at fair value and at cost but which fair values are disclosed and their corresponding level in fair value hierarchy:

	December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	**₱4,258,245**	**₱4,245,577**	**₱–**	**₱8,503,822**
Derivative assets	**–**	**373,040**	**–**	**373,040**
Private debt securities	**2,246,515**	**883,641**	**–**	**3,130,156**
Equity securities	**1,455,435**	**–**	**–**	**1,455,435**
Designated at FVTPL:				
Investment in UITFs	**1,373**	**5,554**	**–**	**6,927**
	₱7,961,568	**₱5,507,812**	**₱–**	**₱13,469,380**
Financial assets at FVTOCI:				
Government securities	**₱66,204,545**	**₱24,845,170**	**₱–**	**₱91,049,715**
Private debt securities	**9,130,230**	**18,496,386**	**2,763,386**	**30,390,002**
Equity securities**	**428,706**	**790,013**	**482,404**	**1,701,123**
	₱75,763,481	**₱44,131,569**	**₱3,245,790**	**₱123,140,840**
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	**₱–**	**₱–**	**₱38,519,042**	**₱38,519,042**
Plant buildings and building improvements	**–**	**–**	**13,951,514**	**13,951,514**
Machineries and equipment	**–**	**–**	**7,341,355**	**7,341,355**
	₱–	**₱–**	**₱59,811,911**	**₱59,811,911**
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	**₱–**	**₱245,619**	**₱–**	**₱245,619**
	₱–	**₱245,619**	**₱–**	**₱245,619**
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	**30,455,373**	**70,924,643**	**200,801**	**101,580,817**
Loans and receivables:				
Receivables from customers	**–**	**–**	**695,304,130**	**695,304,130**
	₱30,455,373	**₱70,924,643**	**₱695,504,931**	**₱796,884,947**

(Forward)

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Non-financial Assets				
Investment properties***				
Land	₱–	₱–	₱23,894,410	₱23,894,410
Buildings and improvements	–	–	4,844,980	4,844,980
	₱–	₱–	₱28,739,390	₱28,739,390
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱226,525,853	₱226,525,853
Long term debts:				
Bills payable	–	–	56,049,095	56,049,095
Unsecured term loan	–	–	2,051,108	2,051,108
Bonds payable	39,517,123	30,123,807	–	69,640,930
LTNCD	–	35,311,473	–	35,311,473
Other liabilities:				
Payable to landowners	–	–	1,828,949	1,828,949
Tenants' rental deposits	–	–	560,992	560,992
	₱39,517,123	₱65,435,280	₱287,015,997	₱391,968,400

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

	December 31, 2018 (As Restated, Note 37)			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	₱7,127,592	₱1,330,121	₱–	₱8,457,713
Derivative assets	545,149	–	–	545,149
Private debt securities	–	516,775	57,854	574,629
Equity securities	–	415,583	–	415,583
Designated at FVTPL:				
Investment in UITFs	–	789,949	–	789,949
	₱7,672,741	₱3,052,428	₱57,854	₱10,783,023
AFS investments:				
Government securities	₱19,824,000	₱13,700,795	₱–	₱33,524,795
Private debt securities	5,628,559	12,090,285	–	17,718,844
Equity securities**	488,548	397,634	–	886,182
	₱25,941,107	₱26,188,714	₱–	₱52,129,821
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱–	₱–	₱38,952,217	₱38,952,217
Plant buildings and building improvements	–	–	14,108,050	14,108,050
Machineries and equipment	–	–	7,257,494	7,257,494
	₱–	₱–	₱60,317,761	₱60,317,761
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	–	470,648	–	470,648
	₱–	₱470,648	₱–	₱470,648
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	₱88,039,346	₱8,980,697	₱200,702	₱97,220,745
Loans and receivables:				
Receivables from customers	–	–	563,776,759	563,776,759
	₱88,039,346	₱8,980,697	₱563,977,461	₱660,997,504

(Forward)

	December 31, 2018 (As Restated, Note 37)			
	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Non-financial Assets				
Investment properties***				
Land	₱–	₱–	₱22,583,028	₱22,583,028
Buildings and improvements	–	–	2,662,848	2,662,848
	₱–	₱–	₱25,245,876	₱25,245,876
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱–	₱–	₱144,481,264	₱144,481,264
Long term debts:				
Bills payable	–	–	60,436,716	60,436,716
Unsecured term loan	–	–	2,631,179	2,631,179
Bonds payable	16,019,776	–	–	16,019,776
LTNCD	28,517,657	–	–	28,517,657
Other liabilities:				
Payable to landowners	–	–	905,506	905,506
Tenants' rental deposits	–	–	491,929	491,929
	₱44,537,433	₱–	₱208,946,594	₱253,484,027

* *Excludes cash component*
** *Excludes unquoted available-for-sale securities*
*** *Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

The unquoted debt securities fair values are estimated based on the market data approach that makes use of market multiples derived from a set of comparable. Multiples were determined that is most relevant to assessing the value of the unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	₱6,000 - ₱6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	₱4,287 - ₱10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱2.8 million - ₱26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱3,200 - ₱8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	₱800 - ₱100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

	Description
Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

a. As of December 31, 2019 and 2018, unpaid additions to property, plant and equipment amounted to ₱4.3 million and ₱180.4 million, respectively, which is included as part of "Accounts payable and accrued expenses".

b. In 2019, 2018 and 2017, the Group reclassified cost of land, which was previously recognized as real estate inventory, amounting to nil, ₱282.9 million and ₱536.7 billion, respectively, to investment property.

c. In 2019 and 2018, the Group reclassified costs of condominium units and furniture and fixtures and equipment amounting to nil and ₱16.4 million to property and equipment, respectively.

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2019 and 2018.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No change were made in the objectives, policies or processes in 2019 and 2018.

The Group considers its total equity reflected in the consolidated statements of financial position as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated statements of financial position.

The table below shows the leverage ratios of the Group:

	2019	2018
	(In Thousands, except ratios)	
Total liabilities	**₱1,011,822,982**	₱866,586,420
Total equity	**254,007,571**	231,190,388
Total liabilities and equity	**₱1,265,830,553**	₱1,097,776,808
Debt ratio	**0.80:1**	0.79:1
Debt-to-equity ratio	**3.98:1**	3.75:1

Regulatory Qualifying Capital for the Banking Segment
Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRSs in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, PNB has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run PNB's operations by ensuring that PNB maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, PNB shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. PNB has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. PNB complies with the required annual submission of updated ICAAP.

37. Restatements of Prior Year Financial Statements

Exchange of shares of PNB Gen for shares of Allied Bankers Insurance Corp. (ABIC)
On April 26, 2018, the BOD of PNB and PNB Holdings approved the exchange of all their holdings in PNB Gen for shares in ABIC. As a result, PNB reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The business of PNB Gen represented the entirety of the Group's non-life insurance business. PNB Gen was previously presented in the 'Others' section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations.

On September 13, 2019, ABIC submitted a revised offer to purchase all of the shares of PNB Gen owned by the Parent Company and PNB Holdings through cash acquisition instead. The Parent Company and PNB Holdings did not assent to ABIC's revised offer due to certain regulatory requirements for the parties to undergo a price discovery process with other possible acquirers. On October 1, 2019, ABIC acknowledged the joint decision of the Parent Company and PNB Holdings, formally closing the former's negotiations to purchase the shares of PNB Gen. With this, the Group reverted the assets and liabilities of PNB Gen from 'Assets and liabilities of disposal group classified as held for sale' of the Group to their respective accounts in the consolidated statements of financial position. Likewise, the results of its operations in 2018 and 2017 amounting to ₱220.0 million (net loss) and ₱70.4 million (net income), respectively, were also reverted from discontinued operations to continuing operations.

The tables below present the impact of the restatements in each line item in the consolidated statement of financial position as of December 31, 2018 and consolidated statements of income and comprehensive income for the years ended December 31, 2018 and 2017:

	As of December 31, 2018		
Consolidated Statement of Financial Position	**As previously reported**	**Restatements**	**As restated**
Assets			
Due from other banks	₱20,525,318	₱477,761	₱21,003,079
Financial assets at FVTPL	9,999,447	1,329	10,000,776
Financial assets at FVOCI	51,674,167	455,654	52,129,821
Investment securities at amortized cost	99,772,711	1,033,150	100,805,861
Loans and receivables	581,695,477	4,970,998	586,666,475
Property and equipment	19,710,145	14,494	19,724,639
Deferred tax assets	2,086,510	26,179	2,112,689
Intangible assets	3,025,157	8,206	3,033,363
Assets of disposal group classified as held for sale	8,238,623	(8,238,623)	–
Other assets	6,140,262	1,250,852	7,391,114
Liabilities			
Accrued taxes, interest and other expenses	6,167,398	229,726	6,397,124
Liabilities of disposal group classified as held for sale	7,237,811	(7,237,811)	–
Other liabilities	21,266,939	7,008,085	28,275,024
Equity			
Net unrealized loss on financial assets at FVOCI	(3,181,335)	(15,601)	(3,196,936)
Remeasurement losses on retirement plan	(1,520,538)	(6,292)	(1,526,830)
Reserves of a disposal group classified as held for sale	(21,893)	21,893	–
Net impact in the consolidated statement of financial position	₱–	₱–	₱–

Consolidated Statement of Income	2018 As previously reported	2018 Restatements	2018 As restated	2017 As previously reported	2017 Restatements	2017 As restated
Interest income on:						
Loans and receivables	₱30,202,480	₱355	₱30,202,835	₱22,669,107	₱369	₱22,669,476
Investment securities at amortized cost and FVOCI/AFS and HTM investments	4,534,297	60,478	4,594,775	3,053,243	46,668	3,099,911
Deposits with banks and others	775,820	1,993	777,813	1,324,526	5,618	1,330,144
Interest income	36,012,642	62,826	36,075,468	27,565,676	52,684	27,618,360
Net interest income	27,001,724	62,826	27,064,550	22,023,968	52,684	22,076,652
Service fees and commission income	4,251,692	7,592	4,259,284	3,982,496	198,365	4,180,861
Net service fees and commission income	3,478,610	7,592	3,486,202	3,195,579	(102,216)	3,093,363
Net insurance premium	–	1,228,794	1,228,794	–	656,329	656,329
Net insurance benefits and claims	–	1,292,949	1,292,949	–	322,244	322,244
Net insurance premium (benefits and claims)	–	(64,155)	(64,155)	–	334,085	334,085
Other income						
Foreign exchange gains - net	942,372	11,692	954,064	1,676,926	(2,556)	1,674,370
Trading and investments securities gains - net	150,691	52	150,743	559,758	–	559,758
Total operating income	38,903,826	18,007	38,921,833	32,330,099	281,997	32,612,096
Operating expenses						
Compensation and fringe benefits	9,380,199	130,241	9,510,440	8,959,754	149,083	9,108,837
Taxes and licenses	3,729,016	931	3,729,947	2,489,342	3,050	2,492,392
Provision for impairment, credit and other losses	1,740,177	12,635	1,752,812	903,595	(19,462)	884,133
Depreciation and amortization	1,944,808	6,169	1,950,977	1,678,227	6,164	1,684,391
Occupancy and equipment-related costs	1,716,315	18,695	1,735,010	1,577,367	18,699	1,596,066
Miscellaneous	6,953,525	45,947	6,999,472	6,320,707	46,812	6,367,519
Total operating expenses	25,464,040	214,618	25,678,658	21,928,992	204,346	22,133,338
Income before income tax	13,439,786	(196,611)	13,243,175	10,401,107	77,651	10,478,758
Provision for income tax	3,663,744	23,361	3,687,105	2,314,934	7,279	2,322,213
Net income (loss) from discontinued operations, net of tax	(219,972)	219,972	–	70,372	(70,372)	–
Basic/diluted EPS attributable to equity holders of the Parent Company from continuing operations	7.75	(0.17)	7.58	6.48	0.05	6.53
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on debt securities at FVOCI, net of tax	(1,610,066)	(616,079)	(2,226,145)	–	–	–
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gains on retirement plan	199,257	(6,292)	192,965	952,697	–	952,697

38. Leases, Provision and Contingencies and Other Matters

Leases

Tthe Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as "Deferred rent" (see Note 8).

The Group has tenants' rental deposits and advance rentals which are presented under "Other noncurrent liabilities". Tenants' rental deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Tenants' rental deposits and advance rentals amounted to ₱437.8 million and ₱71.0 million as of December 31, 2019 and ₱506.0 million and ₱104.6 million as of December 31, 2018, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2019	2018
	(In Thousands)	
Within one year	₱1,617,061	₱1,185,458
After one year but not more than five years	2,829,157	1,817,706
More than five years	548,242	145,505
	₱4,994,460	₱3,148,669

The Group as lessee

The Group has entered into commercial leases for its branch sites/premises, land where the related investment property or property, plant and equipment is build/constructed, warehouse and warehouse equipment, ATM offsite location and other equipment. These non-canceleable leases have lease terms of 1 to 40 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group ROU asset is composed of the Parent Company's branch sites and its subsidiaries offices under lease arrangements.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in 'Occupancy' in the statements of income) amounted to ₱581.1 million, ₱844.6 million and ₱787.1 million in 2019, 2018 and 2017, respectively, for the Group, of which ₱454.1 million, ₱808.3 million and ₱668.7 million in 2019, 2018, and 2017, respectively, pertain to the Parent Company. Rent expense in 2019 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2019 and 2018, the Group has no contingent rent payable.

As of December 31, 2019, the carrying amounts of 'Lease liabilities' are as follows:

Balance at beginning of year	₱3,336,896
Additions	456,644
Interest expense (Note 19)	229,677
Payments	(775,341)
	₱3,247,876

Future minimum lease receivables under finance leases are as follows:

	2019	2018
	(In Thousands)	
Within one year	₱1,260,542	₱1,400,361
Beyond one year but not more than five years	1,164,893	1,501,944
More than five years	–	26,034
Total	2,425,435	2,928,339
Less amounts representing finance charges	13,770	13,770
Present value of minimum lease payments	₱2,914,569	₱2,914,569

Trust Operations

Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱95.9 billion and ₱87.7 billion as of December 31, 2019 and 2018, respectively. In connection with the trust functions of PNB, government securities amounting to ₱1.0 billion and ₱1.0 billion (included under 'Financial assets at amortized cost') as of December 31, 2019 and 2018, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱21.4 million, ₱23.0 million and ₱23.9 million in 2019, 2018 and 2017, respectively, which correspond to 10% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20% of its regulatory capital.

Provisions and Contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Excise Tax Refund Claim

The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under "Other current assets" in 2017). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of ₱45.9 million (included under "Other noncurrent assets" in 2017) in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

On February 8, 2019, TDI received the decision of the Court of Tax Appeals Second Division denying TDI's claim for refund since TDI failed to prove that there is actual payment of the excise tax being claimed. On February 22, 2019, TDI filed a Motion for Reconsideration. As of December 31, 2018, TDI reclassified the prepaid excise tax amounting to ₱797.4 million from "Other current assets" to "Other noncurrent assets".

Other Matter

Effluent Supply Agreement

On September 26, 2013, PNB and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein PNB will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies PNB that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties.

On January 15, 2018, Aseagas issued a letter notifying PNB for the termination of the Effluent Supply Agreement effective January 16, 2018.

39. Notes to Statements of Cash Flows

Cash Flows from Financing Activities
The changes in liabilities arising from financing activities in 2019 and 2018 follow:

	Consolidated 2019			
	Beginning balance (As restated – Note 37)	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱70,082,835	(₱11,348,364)	(₱2,771,181)	₱55,963,290
Bonds payable	15,661,372	51,899,720	(946,014)	66,615,078
Lease liabilities	1,859,717	(641,613)	588,305	1,806,409
	₱87,603,924	₱39,909,743	(₱3,128,890)	₱124,384,777

	Consolidated 2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱43,916,687	₱24,867,590	₱1,298,558	₱70,082,835
Bonds payable	–	15,398,696	262,676	15,661,372
	₱43,916,687	₱40,266,286	₱1,561,234	₱85,744,207

Others include the effects of foreign exchange revaluations, amortization of transaction costs, and accretion of interest.

Non-cash Transactions
Effective January 1, 2019, the Group adopted PFRS 16, in which the Group recognized right-of-use asset and the corresponding lease liabilities, adjusted for previously recognized prepaid and accrued lease payments. Additions to the right-of-use assets of the Group in 2019 amounted to ₱461.9 million. The Group recognized additional lease liabilities in 2019 amounting to ₱456.6 million.

The Group applied creditable withholding taxes against its income tax payable amounting to ₱1.3 billion, ₱2.6 billion and ₱1.6 billion in 2019, 2018 and 2017, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to ₱1.0 billion, ₱0.8 billion, and ₱0.6 billion in 2019, 2018 and 2017, respectively.

LT GROUP, INC.

SUSTAINABILITY REPORT 2019

Building a Sustainable Foundation

MESSAGE FROM THE CHAIRMAN

Our commitment and dedication to service are just a few things we take to heart as a business and as a member of the global community. We believe that the success of our business is the success of all Filipinos, achieved through our collective strength and solidarity working towards a common goal to elevate the lives of our fellow countrymen who are most in need.

Despite the challenges that the world faced in 2019, the resilience of humanity remains. We continue to move forward by building better and stronger. We hold on to hope and continue to see the good in each other. We remain committed to a brighter tomorrow as we surge forward to a better future.

This is the first sustainability report of LT Group, Inc. You will find in these pages our contribution to a global movement to save the future. Guided by our theme, 'Building a Sustainable Foundation', we have stepped up to the challenges of the year that was and continue to look at better ways to operate so we can create sustainable value for all our stakeholders. We look forward to doing more and doing better in the years to come.

As a new decade unfolds, we remain true to our vision of excellence and leadership in business while providing sustainable value for our stakeholders. We believe that although the future might be filled with more challenges, it will be brighter and better.

Dr. Lucio C. Tan
Chairman and Chief Executive Officer

MESSAGE FROM THE PRESIDENT

The landscape of business is changing. Success in doing business is no longer solely limited to the health of our balance sheets but our Company's interactions with employees, customers and suppliers, contribution to the communities we operate in and role in environmental preservation. Beyond creating financial value, we look to creating sustainable value for this generation and the generations to come. As effective stewards of today's resources, we are able to help pave the way for a better tomorrow.

At LT Group, Inc. (LTG), we believe that true excellence is achieved by success in financial as well as environmental and social aspects. With this in mind, our commitment to long-term value creation is also a commitment to long-term sustainable development expressed through our alignment to the United Nations' Sustainable Development Goals (SDGs).

LTG's financial success this year was unprecedented. Our total revenues for this reporting period amounted to Php114.25 billion. Of this amount, we spent Php11.49 billion on employee wages and benefits, Php14.95 billion on payments to government, and Php0.09 billion on community investments.

Across the Group, we have robust policies and practices that allow us to remain consistent with our business values, goals and strategy.

We have governance systems in place that help us mitigate risks and ensure compliance. We continue our drive against corrupt practices within the Group with our regular anti-corruption information sessions. Our Whistle-Blower Policy also ensures that any suspected incidents of corruption are reported and resolved without any threat of retaliation to the reporting party. On the other hand, we observe strict compliance with all applicable laws and regulations. Any oversights to compliance are immediately addressed with all necessary requirements. Our compliance teams are working to achieve our target of surpassing standard compliance.

At LTG, we take very seriously our role in helping save the environment and the responsible usage of natural resources. Across the Group, we have placed measures to monitor our water and energy consumptions, and limit our waste production. These are not only beneficial to the environment but also help optimize our operations. We advocate and support efforts on water conservation and the reuse of wastewater, energy efficiency and the use of renewable energy, and proper waste segregation including the transition away from single-use plastics. We also support eco-friendly and sustainable ventures with green financing schemes. By taking care of the environment, we are able to work better while able to help make sure that future generations have clean air to breathe, clean water to drink, and a healthy planet to live in.

The wellness and safety of our people is another one of our top priorities. We regularly conduct trainings on occupational health and safety to inform and update them on the dos and don'ts of a safe working environment. Throughout our operations, we ensure fairness, gender equality, and diversity and inclusion.

Our businesses rely on the continued patronage of our customers and so we work hard to uphold excellence and quality through the products and services we offer. We ensure that our customers are able to make well-informed decisions by ensuring transparency of our products and services through our websites, social media profiles and other platforms. We also make sure that any information that our customers decide to share with us are managed securely in compliance with the Data Privacy Act of 2012 and other related regulations.

As the communities where we operate in are key to our success, we work hard to give back and contribute to their progress and development. Our main corporate social responsibility arm, the Tan Yan Kee Foundation, Inc., takes the lead in conducting projects in the education, health services, social welfare and environmental aspects with projects and activities that continue to touch the lives of our fellow Filipinos in numerous ways.

In the year that passed, we have taken new and bolder steps on our journey to sustainability. These are our ways of showing our deep commitment to becoming more sustainable as a business. In the coming years, we continue to strengthen our efforts in helping build a sustainable future. We look forward to the new decade with renewed hope to surge forward to greater heights.

Michael G. Tan
President and Chief Operating Officer

2019 Highlights

Economics and Governance		
Php114.25 *billion pesos* total revenues	**45% | 55%** *Female Male* LTG Board of Directors gender balance	**100%** employees, business partners and governance body members know of our anti-corruption policies
Environment		
52 *tons* hazardous waste generated and disposed	**5,663** *megaliters* total groundwater withdrawal	**161,339** *thousand gigajoules* direct energy consumption
402,501 *tons* non-hazardous waste generated and disposed	**1,150** *megaliters* total third-party water withdrawal	**224,820** *thousand kilowatt hours* electricity consumed
Employees		
12,390 total number of employees	**53% | 47%** *Female Male* workforce gender balance	**40%** of all employees covered by Collective Bargaining Agreement[1]
Society		
787 *of 930 ha.* hectares planted and reforested in Barangay R.A. Padilla in Carranglan, Nueva Ecija	**198,040** seedings ready for planting by the LCT Legacy Forest Project	**2000+** number of scholars across all scholarship programs since 1998

[1]The denominator used to calculate this figure is the total number of employees, which includes employees who are eligible and non-eligible by law to form a union.

About this Report

Reporting Scope and Boundary

This is our first sustainability report, which presents our sustainability performance as of and for the year ended December 31, 2019, unless otherwise indicated. We at LTG believe that sustainability is an essential feature of the way we do business because our resilience in the future partly depends on it. Together with our annual report, this sustainability report aims to communicate to you our commitment to sustainability, what we are doing about it, and where we are going.

This sustainability report covers LTG, as the holding company, and our subsidiaries operating within the Philippines particularly ABI, Eton, and TDI. PNB, which was part of the materiality assessment process we have conducted for this report, has prepared its own sustainability report that complements this report. PMFTC has not been included in the materiality assessment process and, as such, will not be covered in detail because it is under the management of Philip Morris International Inc. (PMI) and will be included in PMI's sustainability report.

Due to the diverse nature of our businesses—beverages, property development, tobacco, banking, and distilled spirits—some differences may be observed in terms of material issues and context. However, common issues have been consolidated for the Group enabling the reader to get a good grasp of our big picture.

No assurance has been sought for the non-financial disclosures presented in this report, but this is of primary consideration in the future as our reporting matures. All financial data and general information about the business in this report, however, have been disclosed in our 2019 Annual Report.

Economic Performance Boundary

LTG's economic performance data presented in this report is from the consolidated financial statements as of and for the year ended December 31, 2019 covering LTG, as the parent company, and all its subsidiaries and associates operating in the Philippines and abroad. For more information, please refer to the 2019 Annual Report.

Reporting Approach

In the preparation of this report, we used the principle of Materiality to determine our key issues. Utilizing a framework developed for this purpose, we came up with a long list of potential material issues gathered from internal and external sources, and prioritized according to input from internal stakeholders via both quantitative and qualitative metrics to identify which material issues have the capacity to impact the Group and our operations, and its impact to our various stakeholders.

Sustainability Reporting Guidelines and Standards

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option, and the sustainability reporting guide provided by the Philippine SEC in Memorandum Circular No. 4, Series of 2019. We have also aligned this report to the 17 United Nations (UN) Sustainable Development Goals (SDGs) to further our commitment in contributing to the global sustainable development agenda.

Stakeholder Engagement Mechanisms

Our Board of Directors is tasked with identifying our stakeholders in the communities where the Group operates in or those that are directly affected by our operations. The Board then formulates a clear policy of accurate, timely, and effective communication with identified stakeholders. Our stakeholders include our ***stockholders***, ***employees***, ***customers***, ***trade partners***, and the ***government***.

We engage with our stakeholders in through a number of ways including but not limited to:

1. Annual Shareholders' Meeting
2. Annual Press Briefing
3. Quarterly Analysts' Briefing
4. Meetings with the Congress
5. Investors' Conference (as needed)
6. Private Meetings (as needed)
7. Conference Calls (as needed)
8. Plant Visits (as requested)

The Group also maintains open communications with the investing community to promote greater understanding of our businesses. Reports to the SEC and PSE are disclosed on time, and are available for viewing and downloading in the Group's website. There is also a dedicated Investor Relations Officer and the Group may also be corresponded with through email and/or telephone calls.

Across our subsidiaries, ABI maintains a Customer Complaint Report and conducts a regular Customer Satisfaction Survey. Eton's Property Management Group and Customer Support Team manage on-site concerns and concerns from existing clients, respectively. PNB's Customer Experience Division manages all client concerns and complaints through a variety of channels 24 hours a day, 7 days a week. TDI maintains a number of channels including their website, email address, phone numbers, and social media profiles through which customers may relay any issues and concerns.

The key topics and concerns raised during the Annual Shareholders' Meeting, Annual Press Briefing, and Quarterly Analysts' Briefings are the financial results of the Group, future plans of operations, and other significant changes on the operations of the Group. As for the meetings with the government, significant updates on the regulatory compliance especially on taxes are discussed.

Sustainability Report Feedback

We aim to improve our reporting over the course of time to meet the highest standards of reporting and meet stakeholders' expectations. On our first sustainability report, we would like to know how well we have done on any aspect of this report or if you have any suggestions for improvement—from content to design and presentation, among others, you may reach us at sustainability@ltg.com.ph.

Our Approach to Materiality

Our journey to sustainability is informed by our materiality assessment process. We looked at a variety of sources and conducted workshops to assess and determine the most critical material issues that have the highest capacity to impact the Group, internally, and its stakeholders, externally.

Scan

- Global standards, issues and mega trends that affect the industries we are engaged in
- Regulatory requirements
- Material issues identified by our peers
- Media coverage around the Group and potential material issues identified
- Review of internal policies and board papers identifying potential material issues

Prioritize

- Collected data analyzed quantitatively and qualitatively
- List of identified potential material issues voted according to order of importance to stakeholders and impact on and of the business

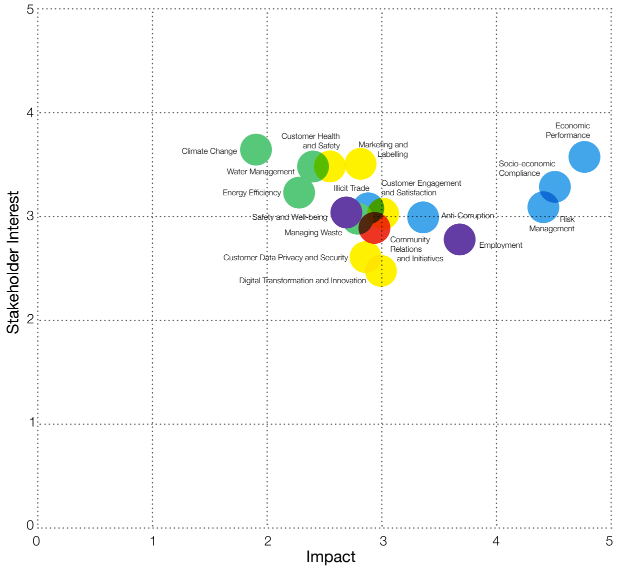
Validate

- Meeting and discussion with key management executives on prioritized material issues to see alignment with group strategy

From a long list of 44 material issues, we were able to prioritize to 17 top material issues and these were validated by key management officers.

Materiality Matrix

Our materiality matrix shows the 17 key material issues that were identified to have the most significant impact and stakeholder in test.



CATEGORY	KEY MATERIAL ISSUE	CATEGORY	KEY MATERIAL ISSUE
ECONOMICS AND GOVERNANCE	Economics Performance	ENVIRONMENT	Water Management
ECONOMICS AND GOVERNANCE	Socio-economic Compliance	SOCIETY	Community Relations and Initiatives
ECONOMICS AND GOVERNANCE	Risk Management	EMPLOYEES	Safety and Well-being
EMPLOYEES	Employment	ENVIRONMENT	Managing Waste
ECONOMICS AND GOVERNANCE	Anti-Corruption	ENVIRONMENT	Energy Efficiency
CUSTOMERS	Marketing and Labeling	ENVIRONMENT	Climate Change
CUSTOMERS	Customer Health and Safety	CUSTOMERS	Digital Transformation and Innovation
CUSTOMERS	Customer Engagement and Satisfaction	CUSTOMERS	Customer Data Privacy and Security
ECONOMICS AND GOVERNANCE	Illicit Trade		

Our Key Material Issues

Material Issues		Relevant SDGs
1	Economic Performance *Maintaining profitability to return a dividend and re-invest in products and services. This also covers stable revenues in the event of political and economic uncertainties, market competition, pressure from regulatory bodies, and employing strategies to increase market share.*	
2	Socio-economic Compliance *Complying with socioeconomic laws and regulations, and regulatory changes in both financial and non-financial reporting*	
3	Risk Management *Managing risks that may greatly impact the Group's operations and performance. This includes systems and policies in place to address potential credit, market, interest rate, liquidity, security, reputation and other risks relevant to the operations of its subsidiaries.*	

	Material Issues	Relevant SDGs
4	Employment *Attracting and retaining highly capable individuals to support high performance, and includes employee wages and other forms of compensation such as bonuses and executive remuneration, as well as fostering gender equality in the workplace.*	5, 8
5	Anti-Corruption *Demonstrating integrity, transparency, governance, and responsible business practices, as expected by the marketplace, international norms, and stakeholders*	16
6	Marketing and Labeling *Providing customers access to accurate and adequate information on the positive and negative economic, environmental and social impacts of the products and services they use–both from a product and service labeling and a marketing communications perspective. This also includes communication of customer protection policies and laws.*	12
7	Customer Health and Safety *Protecting and promoting health and safety of our customers through assurance of product quality, effective safety risk management and promotion of a safety culture. This also refers to ensuring that products are free from toxic or hazardous contents that may endanger customer safety.*	3, 6
8	Customer Engagement and Satisfaction *Meeting customer expectations and needs in delivery of our products, services and experiences. This also ensures that customer complaints are recorded, monitored, resolved and reported to regulatory bodies, as applicable.*	
9	Illicit Trade *Implementing policies and measures to ensure the security of aspects in the supply chain which could be most susceptible to illegal trading and counterfeiting. This entails full cooperation with law enforcement agencies, and engagement with policymakers for a more effective and balanced regulation.*	16
10	Water Management *Optimizing the use of water resources, including management of water treatment of drinking water, industrial water, sewage or wastewater, water resources and flood protection*	6, 12
11	Community Relations and Initiatives *Maintaining our social license to operate through engagements with the community*	1, 2, 3, 6, 9
12	Safety and Well-being *Protecting and promoting health, safety and well-being of our employees and contractors through effective safety risk management and promoting a safety culture*	3, 8
13	Managing Waste *Managing and minimizing waste, including responsible waste management by resource reduction, reuse, recycling and reprocessing, waste treatment and waste disposal*	3, 6, 12
14	Energy Efficiency *Managing and minimizing energy use, increasing efficiency measures and using low-carbon emission energy sources*	7, 8, 9, 12, 13
15	Climate Change *Ensuring that the Group is prepared to anticipate, address, and recover from impacts of climate change that might pose risks to the workforce, cause disruption to operations and/or loss of property*	13
16	Digital Transformation and Innovation *Implementing digitalization of products and services to streamline customer experience. This also refers to other innovations that capitalize on current trends on blockchain, artificial intelligence, etc. This also includes cybersecurity and cyber resilience measures within the Group.*	9
17	Customer Data Privacy and Security *Managing the privacy of customer information and ensuring personal information is secure against fraud and theft*	16

Unique Material Issues across Subsidiaries

During the materiality assessment process, we determined unique key material issues across some subsidiaries. Although we did not include specific disclosures for these material issues in this report as we will be reporting on them in future editions, we have included them here for information.

Material Issues	Relevant SDGs
ABI and PNB	
Learning and Development *Developing our workforce capabilities, skills and competencies to create a positive and sustainable organizational culture*	4, 5, 8, 10
ABI and TDI	
Environmental Compliance *Complying with environmental laws and regulations*	16

Material Issues	Relevant SDGs
ABI	
Greenhouse Gas Emissions *Managing and minimizing emissions to free the air of pollutants – including carbon and other greenhouse gases (GHGs)*	3, 12, 13, 14, 15
Labor/Management Relations *Using consultative practices with employees and their representatives, including communicating significant operational changes*	8
PNB	
Indirect Economic Impact *Supporting infrastructure investments and public services that are additional consequences of the direct impact of financial transactions and the flow of money between PNB and its stakeholders*	8
TDI	
Materials Stewardship *Using materials efficiently and judiciously, whether renewable or non-renewable, necessary for the provision of products and services*	8, 12
Supply Chain Management *Supporting local suppliers, or those owned by women or members of vulnerable groups, and assessing procurement practices that may cause or contribute to negative impacts in the supply chain*	10, 12

Our Strategy and Performance

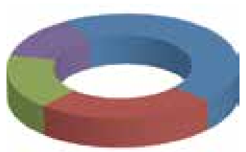
In the following sections, you will find out more about our sustainability journey in 2019. The disclosures have been divided into five categories — Economics and Governance, Environment, Employees, Customers and Society – with the corresponding key material issues contained therein.

Economics and Governance

Economic Performance

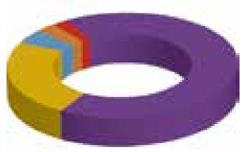
This year was a banner year for LTG. Our economic performance hit record-breaking heights due to our strong commitment to excellence in doing business. Our total revenues for this reporting period is Php114.25 billion. Our total operating costs amounted to Php41.01 billion, while employee wages and benefits accounted for Php11.49 billion. Payments to government accounted for Php14.95 billion, and payments to providers of capital amounted to Php22.47 billion. Our total community investments is at Php0.09 billion from various donations of our subsidiaries. As of the end of the current reporting period, the economic value retained is at Php24.24 billion.

Economic Value Distributed, 2019
(in billion pesos)



		% to total
Operating Costs	41.01	45%
Payments to Providers of Capital	22.47	25%
Payments to Government	14.95	17%
Employee Wages and Benefits	11.49	13%
Community Investments	0.09	0%
Total	90.01	100%

LTG Attributable Net Income, 2019
(in billion pesos)



		% to total
Tobacco	15.50	67%
Banking	5.56	24%
Property Development	0.90	4%
Distilled Spirits	0.67	3%
Beverages	0.40	2%
Others	0.09	0%
Total	23.12	100%

Socio-economic Compliance

Businesses play an important role in nation-building. It provides jobs for people, helps create economic value and drive growth, nurtures innovation, and can significantly contribute to long-term progress. However, due to the numerous areas that businesses can affect, it also has the potential to have negative impacts to societies and economies. We recognize the importance of how our businesses operate and its compliance to social and economic laws, rules and regulations.

Across the Group, our Corporate Governance Committee, together with our Compliance Officer and Corporate Secretary, ensures that we are able to consistently comply, and aim to go beyond compliance, with all conditions set by Philippine regulatory bodies and legislation, as well as international standards. Our Manual on Corporate Governance, which contains our Code of Business Conduct and Ethics, mandates that all personnel in the business, regardless of rank or seniority, abide by all government laws, rules and regulations. This is cascaded on to our employees as part of onboarding procedures and is available on our corporate website for easy reference to anyone who wishes to access the document.

In terms of reporting to regulatory bodies, we ensure strict and timely compliance with the requirements set by the SEC, the PSE and the Bureau of Internal Revenue (BIR), among others. This allows us to avoid penalties due to late submissions and also paves the way for us to improve our reporting methods and immediately take corrective measures to address regulatory issues and concerns.

For 2019, there was one incident of non-compliance with laws and regulations in the social and economic area with a final decision and a monetary fine amounting to Php61,600.00. This incident of non-compliance was due to an oversight in the updating of the LTG website as per SEC regulation. This was promptly addressed with the necessary fines paid, thus we are now compliant to regulation. We are committed to ensure that no incidents of non-compliance are recorded for the next reporting period and that any incident that may arise is resolved immediately.

Risk Management

Businesses are faced with risks—from shifts in the economy, operations and strategy to changes in legislation and taxation. With this in mind, it is imperative that businesses manage risks and use it to its advantage to create value and nurture sustainability.

Our Enterprise Risk Management (ERM) system is in place to help us mitigate risks for value creation and sustainable growth. Our Chief Risk Officer ensures continued compliance with SEC regulations on the implementation of risk management activities aligned with its risk management framework. Our ERM system is partly based on the Enterprise Risk Management - Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

At PNB, the Risk Management Group (RMG) ensures that needed processes and procedures are implemented to successfully operationalize the Bank's own ERM Framework, aligned to the risk governance framework and the three lines-of-defense model. PNB's Risk Oversight Committee, which meets monthly, looks into the Bank's constantly changing risk profile based on the material risks defined in the its Internal Capital Adequacy Assessment Process (ICAAP) document. To ensure consistent risk management and monitoring, the RMG directly engages with all levels of the organization across its business and support groups, which includes ongoing training activities and learning sessions to properly equip personnel. For new employees, the RMG conducts trainings twice a month on business continuity, data privacy awareness, operational risk, and ICAAP during the New Employees Orientation Program. For existing employees, the RMG conducts the Risk Education and Awareness Program annually to employees in both domestic and overseas branches covering business continuity, data privacy awareness, trust risk, credit risk, market risk, operational risk and ICAAP. RMG maintains a database of employees who have attended and have yet to attend risk trainings.

Anti-Corruption

Our strong commitment for fair and equitable business practices ensures that we do not engage in corrupt activities. We comprehend the negative effects of corruption on people's lives and do our best to counter it.

Across the Group, our Code of Business Conduct and Ethics ensures that we do not engage in nor condone any act of bribery or corruption with government officials in order to facilitate transactions. The Code also ensures that all our Directors, Officers, and Employees comply with all government rules, laws, and regulations, and to conduct themselves in a way that avoids conflicts of interest. Approved by our Board, the Code is aligned to the standards set by SEC in accordance with internationally accepted standards. The Board also conducts regular reviews of the Code to ensure its continued relevance and to update when needed. We conduct regular refresher sessions on the Code to existing employees, and as part of onboarding procedures for new employees. The Code is also available on our corporate website for easy reference to anyone who wishes to access the document.

For any suspected cases of corruption, employees may report to their immediate supervisor who shall determine the existence of reasonable ground to escalate the matter. Directors and Officers shall then report any known or suspected cases of corruption to the Chairman of the Corporate Governance Committee. Alternatively, employees and officers may also use the Whistle-Blower Policy, which allows one to report any instances of suspected or known unethical behavior or corruption anonymously.

100%
of all our employees, business partners and governance body members know of our anti-corruption policies

To further enhance our action against corruption, our subsidiaries also have their own policies that complement the Group's Code. ABI, Eton, PNB and TDI have their own Code of Conduct and Ethics. ABI, apart from the Code of Conduct, maintains a Labor Management Council and Committee on Right Ethics (CORE) which helps manage cases of misconduct and corruption. Eton's Code of Ethics contains a no-gift policy. PNB maintains a policy on Soliciting and Receiving Gifts and a policy on Office Decorum, which includes anti-bribery and anti-corruption clauses. TDI has Conflict of Interest Policy, aside from the Corporate Code of Conduct.

Due to our commitment and drive against corruption, there has been no instance of corruption nor have there been any cases reported through our Whistle-Blower Policy in 2019. We continue our commitment to maintain zero cases of corruption for 2020 and moving forward.

Environment

We recognize the importance of the natural environment in building a sustainable foundation for our business. From the environment comes the resources that we use to deliver our products and services, and we are committed to protect it not just for the current generation but for the generations of the future. Our commitment to help save our environment is long-standing as evidenced by our initiatives that began prior to 2019.

At ABI, we began producing water in glass bottles to provide an alternative to single-use plastics. In 2019, ABI sold 544,776 glass bottles of water in 330ml and 1000ml variants. In addition, through ABI's partnership with the World Wide Fund for Nature (WWF), we have committed to give Php1.00 million of our sales proceeds annually to be used for WWF's transformational programs for water conservation.

At Eton, we have shifted to clean and renewable energy sources for our office buildings. Our office buildings in Eton Centris are powered by geothermal energy through Cleanergy of AboitizPower, a starting point for more clean energy initiatives in the future for our properties.

At PNB, we have an ongoing multibillion-peso financing program to support eco-friendly and sustainable businesses and projects that promote nation-building and countryside development, environmental protection and conservation, and sustainable development. In 2019, over 40% of the total loans of the Bank were used to finance green and sustainable businesses and projects in the food and manufacturing industry, the energy transmission, generation, and generation industry, and the infrastructure development industry.

At TDI, to support the shift for using renewable sources of energy, our solar power and bioethanol facilities in Lian, Batangas have helped bridge the gap in making clean energy accessible to interested parties. On the other hand, our carbon dioxide by-product from TDI's production, which would otherwise be released to the atmosphere, is converted to dry ice. Waste water or sludge is also converted to fertilizer as part of our effort for zero effluent discharge.

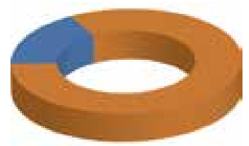
In a world with rapidly changing climate conditions, our businesses are faced with new threats and opportunities that shape the way we operate. We constantly do our best to meet and go beyond regulatory compliance to effectively manage our overall environmental footprint. We look to new ideas and innovate on what we can do to contribute to efficient resource use and address the impacts of climate change.

Water Management

As the world feels the effects of climate change, water scarcity has become the new normal. Our Group takes very seriously the impact of water scarcity to our operations as well as how we impact water resources. Across the Group, we strictly observe and comply with regulation related to water consumption and management.

At ABI, we observe strict monitoring of our water consumption and how we manage our waste water through our Water Treatment Process and our Waste Water Treatment Process, respectively. We observe strict compliance with regulation and have secured all necessary permits and installed all required equipment to allow us to draw water from our deep wells sustainably.

| Total Water Withdrawal from all Sources, 2019 (in megaliters)



		% to total
Groundwater	5,663	83%
Third-party water	1,150	17%
Total	6,813	100%

At Eton, we have strengthened our campaign to encourage our property tenants and residents to conserve water at all times. We sent out circular memoranda to remind them to check if there are leaks in their faucets and showerheads, and to make sure that their faucets and other water sources are turned off when they leave the premises to prevent any water wastage.

At PNB, the water that we use is purchased from a third-party water services provider. At our head office in Pasay, waste water is treated at our Sewage Treatment Plant (STP) before being released to the Manila Bay in strict compliance with conditions set by regulators. At our offices in Makati, waste water is discharged to the sewer lines of our third-party water services provider and subsequently treated at their STP. We continue to look for better ways to improve our water consumption. For example, we have adjusted the flushing mechanisms of our water closets to reduce the volume of water being used per flush in toilets and urinals as well as the replacement of defective faucets and leaking water valves.

At TDI, our Water Resource Management Toolkit is strictly implemented to ensure our operational compliance to regulation. Using the tool, we conduct monthly monitoring of our water consumption through sub-meters on all points-of-use. The extraction of water from our deep wells is under strict compliance with the conditions set by the National Water Resources Board (NWRB) which regulates and monitors the volume of water we extract. We ensure that our liquid chemical waste is hauled by accredited third-party contractors and is treated properly by requiring a Certificate of Treatment. We also partner with local non-government organizations (NGOs), like the Cabuyao River Protection Advocates, in activities that improve and protect the water quality of receiving water bodies. Ongoing initiatives include the Adopt-a-River program where we adopted Cabuyao River in Cabuyao, Laguna and the Adopt-an-Estero program where we adopted Cabungan-an Creek in Murcia, Negros Occidental. We regularly conduct river and creek clean-up activities, the installation of trash catchment mechanisms, and an education campaign for the community regarding environmental stewardship.

For this reporting period, our total water withdrawal is 6,813 megaliters (ML), where 5,663 ML is from groundwater sources and 1,150 ML is from third-party water suppliers.

Managing Waste

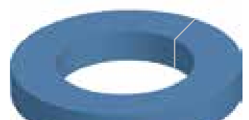
Waste management is an important part of our operations and how we manage our environmental footprint. We are continuously looking for better ways to dispose of our waste. We are also looking at better ways to work so we can lessen the amount of waste we produce thereby cutting cost on waste disposal services and lessening our impact to the environment.

Across the Group, we have encouraged internal communication to be only be transmitted electronically to limit the use of paper. We have also promoted two-sided printing and repurposing scratch paper for second use. LTG, ABI and Eton strictly observe proper waste segregation. Waste from LTG and Eton is handled by the respective building management where LTG and Eton are tenants. Waste from ABI is handled by a third-party contractor that has been accredited by Department of Environment and Natural Resources (DENR) to handle hazardous and non-hazardous wastes.

At PNB, our solid waste is managed by third-party contractors. We have ensured that these contractors are compliant with government regulation as part of our due diligence procedures. These contractors work with our designated Pollution Control Officers who take the lead in monitoring our waste disposal system and provide needed insight on how we can continue to improve our performance.

At TDI, our Solid Waste Management Plan is strictly implemented in all our plants to manage and control solid waste in compliance with the conditions set by our Environmental Compliance Certificate (ECC). We have third-party contractors who haul and dispose of our solid waste. As part of due diligence, we ensure that our contractors have the necessary government accreditation. The Pollution Control Officers of each plant evaluate the performance of their respective plants and report this to the regulators. The results of the evaluation are discussed during the regular Environment, Health and Safety (EHS) meetings for steps forward.

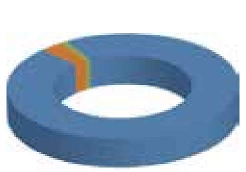
| Hazardous and Non-Hazardous Waste Generated and Disposed, 2019 (in tons)



		% to total
Non-Hazardous Waste	402,501	100%
Hazardous Waste	52	0%
Total	402,553	100%

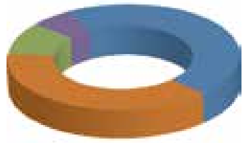
For 2019, we generated and disposed of 52 tons and 402,501 tons of hazardous and non-hazardous waste, respectively. We also disposed of 633 pieces of lead acid batteries through our accredited third-party service providers. Due to the strict and efficient implementation of our solid waste management plan, as well as a Group-wide campaign to reduce waste, no violations or non-compliance incidents have been reported.

| Non-Hazardous Waste by Disposal Method, 2019
(in tons)



		% to total
Landfill	388,430	96%
Other (hauled by third-party contractor)	10,350	3%
Recycling	3,720	1%
On-site Storage	1	0%
Total	402,501	100%

| Hazardous Waste by Disposal Method, 2019
(in tons)



		% to total
Other (hauled by third-party contractor)	24	47%
On-Site Storage	20	38%
Recovery	5	9%
Recycling	3	6%
Total	52	100%

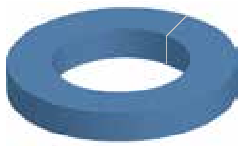
Energy Efficiency

Across the Group, we continue to strengthen our energy efficiency efforts that promote energy conservation and reduce our overall carbon footprint. For example, we use LED lights across most of our offices and sites to replace conventional bulb and tube lights.

At the LTG office, we have set the air-conditioning units at 25 degrees Celsius to ensure maximum energy efficiency. Employees are also asked to only turn on equipment when needed and to unplug unused equipment. We also promote carpooling and the use of our company car service to help them in their commute.

At ABI, we have allocated resources and implemented our Energy Management System Policy for our beverage manufacturing plants where we saw a 15% improvement in energy consumption[2]. At ABI Cabuyao, we were able to reduce our coal consumption by 33% and increase efficiency after we conducted maintenance and rehabilitation work on our steam boiler[3]. In June 2019, at our ABI Bottled Water Plant (BWP) in Sta. Rosa, Laguna, we optimized our PET (polyethylene terephthalate) Blowing Machine Preform Oven by converting it into an Eco-Oven Module Assembly that uses less power to operate and has resulted in 25% energy efficiency for two lines of the BWP[4]. Other activities that sought to improve, repair or maintain refrigeration systems, among other equipment, have all led to reduced energy consumption and increased energy efficiency.

| Total Energy Consumption, 2019
(in thousand gigajoules)



		% to total
Direct Energy Consumption	161,339	100%
Indirect energy consumption	809	0%
Total	162,148	100%

[2] Using 2018 as base year
[3] ibid.
[4] ibid.

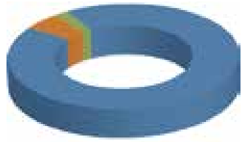
At Eton's head office, our employees are encouraged to turn off office equipment when not in use, which includes the implementation of our lights-off policy during noon break. For our buildings, residents and tenants are reminded through memos to conserve energy by making sure that lights are turned off and appliances such as air-conditioning units are unplugged when not in use.

At PNB, we have an energy conservation program that allows us not only to save on our energy costs but also to address our emissions in compliance with regulation. Our main source of direct emissions are our standby generator sets, which are only used during power interruptions. Our Pollution Control Officers monitor these emissions and ensure effective compliance. We also have allocated resources for regular third-party smoke emissions testing to ensure accurate data and assessments. In terms of energy efficiency, we have engaged the services of a third-party provider who provide us with regular reports on the status of our energy efficiency situation. From these reports, adjustments are regularly implemented based on performance and operating conditions.

At TDI, we monitor our energy consumption and emissions in relation to production outputs by using the ***energy use ratio*** (EUR)[5]. EURs for our three (3) plants differ depending on the factors affecting their operations. The energy consumption of our Cabuyao plant is limited to usage from production as it does not have bottle washing since it uses brand new bottles. The energy consumption of our Negros and El Salvador plants, on the other hand, consider usage in all aspects as they use second-hand bottles requiring bottle washing in their operations. Each plant, led by their respective Pollution Control Officers, submits their energy consumption reports to our Group Safety, Environment and Risk Management (GSERM) Department as part of their environmental key performance indicator (KPI) monitoring. Any positive or negative deviation from the set EUR target is analyzed and steps are made for mitigation and conservation measures.

As of the current reporting period, our total energy consumption across the Group is 162,148 thousand gigajoules (GJ). Our direct energy consumption (Scope 1) is at 161,339 thousand GJ, while our indirect energy consumption (Scope 2) from purchased electricity is 809 thousand GJ.

| Direct Energy Consumption (Scope 1), 2019
(in thousand gigajoules)



		% to total
Liquefied petroleum gas	150,908	93%
Coal	7,892	5%
Gasoline	2,500	2%
Bunker Oil	28	0%
Diesel	11	0%
Total	161,339	100%

| Indirect Energy Consumption (Scope 2), 2019
(in thousand kilowatt hours)

		% to total
Luzon and Visayas	219,783	98%
Mindanao	5,037	2%
Total	224,820	100%

[5] Energy Use Ratio (EUR) - Average total amount of electricity and fuel consumed on-site from all sources converted to mega joules (MJ) for every liter of product produced.

Climate Change

Climate change is not just a buzzword to the Group. It is a real challenge that we consider in our operations today and on to the future.

At ABI, our Manufacturing Continuity Program is a practical guide on how to prevent, prepare, respond and recover before, during and after a disaster, incident or crisis. Our primary considerations include the reduction of employee exposure to health and safety risks, reducing operations downtime, and managing financial loss. Updated annually, this guide covers various scenarios that are due to or made worse by the effects of climate change including severe weather conditions, typhoons, flooding, epidemics, among others. We regularly communicate with regulators and other stakeholders on the impact of our operations to local communities and the climate.

At Eton, we have taken steps in combating climate change by finding ways to use clean and renewable energy. Together with our partners, Eton's office buildings at Eton Centris in Quezon City currently use clean and renewable energy through the MakBan Geothermal Power Plant via Cleanergy of AboitizPower.

At PNB, our long-standing campaign for climate stewardship is expressed through the Bank's sustainability report highlighting the PNB's drive to address the effects of climate change to the business. The Bank is also currently drafting its sustainability financing policy and framework, which will enable us to effectively assess and manage the Bank's environmental and social risks and impacts when doing business.

At TDI, we observe strict compliance to DENR's policies on ozone-depleting gases and GHG emissions. Our Incident Management Crisis Resolution Procedure is climate-informed and includes various scenarios caused by or made worse by climate change. We use DENR-approved fuels in our operations such as low-sulfur fuel oil for our boilers. We also participate in various reforestation programs throughout the year. As part of our ongoing plans to strengthen our campaign against climate change, we will be mapping out and measuring our GHG emissions in the near future to implement evidence-based policies to reduce emissions.

Employees

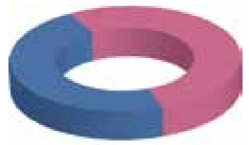
Our businesses rely on the people who work to make our every success possible. Within our workforce can be found exceptional human capital who are our partners in creating sustainable value. We do our best to recruit, retain and nurture our human capital in a safe and healthy work environment that not only fosters creativity and innovation but also gives a strong focus on work-life balance.

Employment

Across the Group, we have a strong commitment to ensure fair employment practices, gender equality, diversity and inclusion. We ensure strict compliance to all requirements of the Labor Code of the Philippines and the General Labor Standards of the Department of Labor and Employment (DOLE) who conduct regular inspections and evaluations on our compliance.

As of 2019, no instances of non-compliance have been recorded and we are at full compliance.

| Employee Breakdown by Gender, 2019



		% to total
Female	6,601	53%
Male	5,789	47%
Total	**12,390**	100%

Our employment policies have been created in accordance with labor laws, industry practices, and the existing collective bargaining agreements (CBAs) with the employees' unions. Across the Group, 40% of all our employees are covered by an existing CBA — 22% of employees at ABI, 49% of employees at PNB, and 22% of employees at TDI — and we ensure that we uphold and safeguard the rights of our all employees, whether they are covered by a CBA or otherwise. We have policies on hiring, transfer, promotion, employee benefits, resignation and separation, and learning and development, among others, which are regularly reviewed and evaluated by senior management.

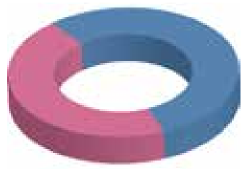
We have a Code of Business Conduct and Ethics which is a guide on professional and ethical conduct for all executives and employees of our businesses. The Code is aligned to the standards set by the SEC in accordance with internationally accepted standards. Embedded in the Code is our Whistle-Blower Policy, which helps us ensure that all incidents of misconduct and unethical behavior are reported anonymously without fear of retaliation.

For any cases of misconduct, disputes or controversies arising from the interpretation, meaning, application and implementation of our CBAs between the union and the concerned business or between the concerned business and any covered employee, our Grievance Machinery Policy is in place to address and resolve these cases for timely investigation and resolution.

Full-time employees across our subsidiaries are entitled to all government-mandated benefits as well as but not limited to life insurance coverage, healthcare coverage, vacation and sick leaves, parental leaves, retirement provision, loan facilities, among others.

We take particular pride in our gender equality and diversity and inclusion (D&I) practices where a significant number of women are in our governance bodies and senior management. The Board of Directors of LTG is comprised of five (5) women and six (6) men. Our combined workforce also shows a majority of women employees. Our robust practices also ensure that there is no difference between the basic salaries of men and women.

| Composition of LTG Board of Directors, 2019



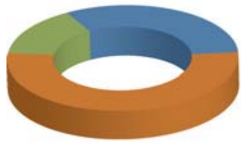
		% to total
Male	6	55%
Female	5	45%
Total	11	100%

In November 2018, leveraging on its diverse and inclusive workforce, the Philippine National Bank (PNB) approved its Policy on Diversity and Inclusion to further foster innovation, create sustainable value and impact, and improve employee acquisition and retention. The Bank is also looking at its existing policies and is working to craft gender-responsive provisions that ensure gender equality and non-discrimination.

In May 2019, PNB became the first domestic universal bank to join the Philippine Business Coalition for Women Empowerment (PBCWE). As part of the membership, the Bank underwent the Economic Dividends for Gender Equality (EDGE) Certification assessment in the 3rd quarter of 2019 in preparation for EDGE Certification set to be completed in 2020.

As of this reporting period, our workforce is at 12,390 regular employees where 6,601 people or 53% are females. We also have 360 contractual workers. Our employee turnover rate is at 9.27%. We hired 1,625 new employees of which 618 were females.

Employee Breakdown by Age Group, 2019



		% to total
Under 30	3,928	32%
30 to 50	6,550	53%
Over 50	1,912	15%
Total	12,390	100%

Employee Breakdown by Category, 2019 (for LTG, ABI, Eton and TDI only)

		% to total
Rank and file	2,736	71%
Supervisors	750	20%
Managers	244	6%
Officers	110	3%
Total	3,840	100%

Employee Breakdown by Category, 2019 (for PNB only)[6]

		% to total
Rank and file	4,232	50%
Managers	3,850	45%
Officers	468	5%
Total	8,550	100%

Total Number of Employees by Employment Contract, by Region, 2019

Region	Permanent	Temporary
Luzon	9,580	0
Visayas	1,347	0
Mindanao	1,463	0

Total Number of Employees by Employment Contract, by Gender, 2019

Male		Female	
Permanent	*Temporary*	*Permanent*	*Temporary*
5,789	0	6,601	0

Total Number of Employees by Employment Type, by Gender, 2019

Male		Female	
Full-time	*Part-time*	*Full-time*	*Part-time*
5,789	0	6,601	0

[6] PNB's employee breakdown by category has been separated from the Group-wide figures as PNB has no corresponding ranks for the Supervisor category.

New Hires by Gender, 2019

		% to total
Male	1,007	62%
Female	618	38%
Total	1,625	100%

New Hires by Region, 2019

		% to total
Luzon	1,360	84%
Mindanao	152	9%
Visayas	113	7%
Total	1,625	100%

New Hires by Age Group, 2019

		% to total
Under 30	1,142	70%
30 to 50	456	28%
Over 50	27	2%
Total	1,625	100%

Employees Who took Parental Leave by Gender, 2019

		% to total
Female	185	82%
Male	41	18%
Total	226	100%

Return to Work Rate by Gender, 2019

	Male	Female
Employees due to return after parental leave	39	173
Employees that returned to work after parental leave	39	173
Return to Work Rate (%)	**100%**	**100%**

Retention Rate by Gender, 2019

	Male	Female
Employees retained 12 months after returning to work following parental leave	16	166
Number of employees returning from parental leave in prior periods	16	166
Retention Rate (%)	**100%**	**100%**

Safety and Well-being

We recognize the great importance of our people's safety and well-being. A safe working environment is an important feature of our operations and we make sure we are able to provide this to our employees at all times.

Across the Group, we have an Occupational Safety and Health (OSH) Policy to safeguard our employees' right and access to humane working conditions. Our respective OSH committees and accredited Safety Officers help ensure strict implementation of this policy in accordance with our policies on good corporate governance and in compliance with the conditions set by DOLE. We also conduct regular reviews and evaluation of this policy to assess its effectiveness and to effect any changes if needed. The respective Committees regularly meet to manage work-related hazards, including investigation and incident reporting, which is guided by DOLE's guidelines on the Notification and Keeping of Records Accidents and/or Occupational Illnesses (Rule 1050, Occupational Safety and Standards, As Amended 1989, DOLE). Our employees across the Group are covered by a healthcare plan which include coverage for occupational health services.

We conduct regular training programs on occupational safety and health internally through our Safety Officers, health providers, government agency partners, and third-party providers. Apart from the DOLE-prescribed mandatory training hours for OSH, we conduct other trainings to further commitment to maintaining safety and health across all our operations. For example, at Eton's construction sites, we also conduct loss control management seminars, first-aid trainings, working at heights and scaffold safety trainings, and heavy equipment operation trainings, among others. This is on top of our annual trainings for OSH, Basic Occupational Safety and Health (BOSH), and Construction Occupational Safety and Health (COSH), a requirement for the construction industry. At TDI, our Safety Officers are required to conduct trainings on hazardous materials management, hot works operation, spill control, confined space safety and working at heights, and laboratory safety, among others. Group-wide, our businesses also respectively publish health bulletins regularly to promote sustained awareness among our employees.

At ABI, we implement the Hazard Identification, Risk Assessment and Determining Control (HIRADC) procedure, whereas Eton's sites and TDI implement the Hazard Identification, Risk Assessment and Control (HIRAC) procedure. These allow us to identify hazards and assess risks according to their likelihood and severity. After evaluation, we are able to determine and apply controls to manage these hazards and risks in the workplace.

As of 2019, we have zero instances among full-time employees of high-consequence work-related injuries[7] during the reporting period.

OHS Management System Coverage, 2019

	No. of employees	Percentage
Covered by occupational health and safety management system		
Regular employees	11,906	100%
Contract workers	360	99%
Covered by occupational health and safety management system that has been internally audited		
Regular employees	11,491	97%
Contract workers	360	99%
Covered by occupational health and safety management system that has been audited or certified by an external party		
Regular employees	8,610	72%
Contract workers	0	0

[7] A high-consequence work-related injury is a work-related injury that results in a fatality or in an injury from which the worker cannot, does not, or is not expected to recover fully to pre-injury health status within 6 months.

Work-Related Injuries, 2019

	Number of cases	Rate
For employees		
Fatalities as a result of work-related injuries	0	0
High-consequence work-related injuries (excluding fatalities)	0	0
Recordable work-related injuries	49	5.82
Number of hours worked (hours)		8,413,664
For contract workers		
Fatalities as a result of work-related injury	0	0
High-consequence work-related injuries (excluding fatalities)	0	0
Recordable work-related injuries	15	5.49
Number of hours worked (hours)		2,730,632

Customers

Our journey to creating value would not be complete without our customers. By listening to them, we are able to understand our businesses better and we are able to move forward and grow in unprecedented ways. We learn about the changing market, developing preferences, and new or recurring trends by listening to our customers. This way, we are able to improve the way we do business and create products and services that our customers need, many of which have become homegrown brands we can be truly proud of.

Over the years, our businesses have remained true to its promise of excellence. We strengthen our commitment and look to innovative ways to provide quality products and services and create new and better value for our customers.

Marketing and Labeling

The way a business communicates to its customers is an important aspect of doing business. Our Group ensures transparent and easily-accessible information about our products and services to help our customers arrive at a well-informed choice. Across the Group, we follow local and international standards and regulation on responsible marketing and labeling practices. We continue to look at better ways to improve our websites and other information channels for ease-of-access to our clients.

At ABI, our Manufacturing Change Control (MCC) document is a practical guide we follow when we introduce, manage, execute and implement changes in terms of raw materials used, packaging, operational activities, promotional activities, and product campaigns. The MCC, together with our New Product Development document and our Stock Aging Management document, enables us to cover different aspects of how we market and label our products to consumers at different stages. We ensure strict compliance with guidelines on information and labeling set by the Philippine Food and Drug Administration (FDA), as well as all requirements set by the Philippine Ad Standards Council (ASC), and the Department of Trade and Industry (DTI), which may include information on sourcing, content, safe use, and proper disposal.

At Eton, our Marketing team ensures that our materials are compliant with our branding guidelines and all applicable laws and regulation set by the Department of Human Settlements and Urban Development (DHSUD) [formerly Housing and Land Use Regulatory Board (HLURB)] and DTI, among others. We regularly conduct a review of branding guidelines to address and accommodate new trends in industry branding. Likewise, we ensure that our brand logos and product names are duly registered at the Philippine Intellectual Property Office (IPO).

At PNB, we observe strict compliance with the conditions set by the Bangko Sentral ng Pilipinas (BSP), as well as guidelines by the Philippine Deposit Insurance Corporation (PDIC), ASC, DTI, among others. All our marketing tools have undergone internal reviews and have the necessary permits from regulators. Our Social Media Framework is also in place to help us manage our reputational risk across our social media platforms.

At TDI, we are guided by our Brand Guidance Policy, created through research done by TDI on marketing standards practiced in the Philippines. Our Quality Policy guides our labeling practices where we follow a mandatory minimum standard for information on our labels, which include alcohol content, packing size, intended sale placement (whether domestic or export), manufacturing plant address, BIR assessment number, ingredient declaration, and product traceability, among others. When critical, we also include proper product storage conditions and mixing guides, as well as guidelines on disposal. We continuously monitor this under our Quality Management System, and in strict compliance with conditions set by regulatory bodies such as the ASC for our television and radio advertisements. Labels of products for local distribution conform to the guidelines of FDA, while labels for products meant for export are subject to labeling regulations of the importing country. All our products are evaluated and registered by the FDA with their corresponding Philippine Intellectual Property Office (IPO) registration. We conduct regular assessments and evaluations throughout the year as we continuously look for new and innovative ways to strengthen our presence in existing markets and heighten our appeal to emerging markets.

In 2019, due to our strict commitment to comply with laws and regulations on marketing and labeling, we have recorded zero incidents of non-compliance.

Customer Health and Safety

Our customers' health and safety will always be a top priority for us. Across all our products and services, we make sure that our customers are protected and safe from toxins and hazards. We continuously look at ways to contribute to improving our customers' quality of life.

At ABI, our Food Safety and Quality Policy ensures that our products meet international standards on quality and safety as set by our Quality Management System and policies of the FDA, as well as the National Sanitation Foundation and the International Bottled Water Association. We continue to ensure that all our plants are certified, that there are zero cases of non-conformance to regular internal and external audit procedures, and that key performance indicators on quality and packaging are met.

At Eton, we look to building and developing properties that positively impact the way communities live and grow. We strictly meet and observe all conditions set out by regulation and secure all needed permits as required by local zoning laws, regulations set by the National Building Code of the Philippines, as well as policies of the DHSUD (formerly HLURB), the Bureau of Fire Protection (BFP), DENR, among others.

At TDI, our Quality Policy is in place to ensure that our products are not just of excellent quality but are free of any elements that could potentially be harmful to our customers. Within our Quality Management System, and in compliance with the policies of the FDA, we make sure that strict implementation of our Quality Policy is observed as well as efficient response and resolution to product complaints with our product complaints procedure, consumer response program and corrective action plan.

During the reporting period, we recorded zero incidents of non-compliance with regulations on customer health and safety. We strengthen our commitment to ensure customer health and safety at all times and aim to maintain zero cases in the next reporting period.

Customer Engagement and Satisfaction

The longevity of our businesses has always partly depended on how well we listen to our customers. By listening well, not only are we able to improve the way we work, but we are able to create better value. We consider customer engagement and satisfaction a top priority.

At ABI, as part of our Food Safety and Quality Policy, we regularly conduct a Customer Satisfaction Survey. Together with our Customer Complaint Report, we use these tools to understand how well we have done and to see which areas of improvement we need to work on based on customer feedback sent through our website, email, phone and social media profiles.

At Eton, our commitment to customer engagement and satisfaction is rooted in our mission and vision as well as our Code of Ethics. We work hard to ensure that we are able to address client concerns and meet client demands in an efficient and timely manner. Our Customer Support team handles all concerns coming from our existing clients, while our Property Management Group takes care of on-site concerns. Our Marketing team, on the other hand, handles all feedback received from our website and social media platforms from both existing and prospective clients.

At PNB, customer engagement and satisfaction is embedded across all client touchpoints—from account opening to administration and termination. Our dedicated Customer Experience Division handles all client concerns and complaints 24 hours a day, 7 days a week through various channels including our Customer Care Hotline, website, email, secure online messaging platforms and the private messaging function of our social media profiles. Our Customer Care Policy ensures that any complaints brought to our attention are acknowledged, processed and resolved in a timely manner. Consistent with our Data Privacy Policy, we also ensure proper documentation for these issues and complaints and report them to the concerned regulators for compliance.

At TDI, we regularly engage in relationship-building activities between our salesmen and our customers. We are also active on social media and conduct marketing promotion campaigns throughout the year. We conduct monthly and annual evaluations of our activities to look at ways to improve. For any complaints, our customers are able to reach us through our website, telephone, email and/or our social media profiles. Each bears a distinct code which will identify the plant batch, line and date of production to pinpoint source of any defective products.

Digital Transformation and Innovation

In today's information age, businesses are driven by change that allow them to grow and improve. We recognize the importance of digital transformation and innovation as we look to reach new heights in the way we do business.

Our businesses are currently looking at ways to continuously keep up with present trends in technology. At Eton, we have integrated innovation in our business as we continue to look at smart cities and the impact of smart home systems to our properties. We are also looking at plans to continue upgrading our Enterprise Resource Planning (ERP) system.

At PNB, we launched our Ecosystem Strategy in 2016, which is an end-to-end, sustainable value chain concept to provide customized banking solutions and other services, which include integrated cash management solutions, bills payment, and payroll services to parties in the value chain. Digital transformation is at the very core of this strategy as we innovate and find better solutions to working with our partners. To make banking accessible to everyone, we currently have 1,557 automatic teller machines (ATMs), and 81 cash accept machines (CAM) for 24-hour banking convenience.

At TDI, we are documenting business processes of our new ERP system, which automates and integrates the management of many business processes. Quarterly operational audits will be conducted to ensure that written policies and procedures are being followed.

Customer Data Privacy and Security

Keeping information safe and secure is a top priority for us. We look to new and innovative ways to keep data that we have and data entrusted to us safe and secure at all times. We comply with all applicable regulation and go beyond compliance in making sure that our data safekeeping capabilities are continuously updated.

Across the Group, we are guided by our Data Privacy Policy which provides a framework for processing personal data from an individual in compliance with local data privacy laws and professional standards, most notably the Philippine Data Privacy Act of 2012. Our respective Data Protection Officers ensure strict compliance and implementation of the policy as well as handling of inquiries and complaints related to data privacy and security.

At Eton, we have a Data Privacy Manual, which complements our Group-wide Data Privacy Policy. This manual is reviewed and evaluated annually for any changes and improvement needed. Our Data Protection Officers work closely with our Legal Department to ensure that all required documentation is obtained from our clients. We also make sure that our employees are compliant with existing conditions set by regulation.

At PNB, together with our Group-wide Data Privacy Policy, our Enterprise Data Privacy Policy reinforces our strong commitment to data privacy and security. This policy was developed based on the Philippine Data Privacy Act of 2012, the General Data Protection Regulation 2016/679 (GDPR) of the European Union (EU), ISO 27001:2013 for Information Security Management System and our Enterprise Information Security Policy, the Manual of Regulation for Banks (MORB) of the BSP, and publications and references issued by industry associations as the Information Systems Audit and Control Association (ISACA) and the International Association of Privacy Professionals (IAPP), among others. With our Data Privacy Management Division (DPMD), comprised of our Data Protection Officers and Data Protection Program Managers, we ensure firm compliance with both local and international regulations as well as international standards, including the compliance checklist of the National Privacy Commission and the six (6) data protection principles of the EU GPDR. Our DPMD also works with our Customer Experience Division for a quick and easy way to resolve any data privacy-related concerns directly coming from our customers. Within the Bank, all our personnel are bound by our confidentiality policy. We also regularly send out data privacy advisories to all personnel concerned regarding updates and trends on data privacy and security.

For 2019, we recorded three (3) incidents of inadvertent leakage of customer data, and four (4) incidents of non-compliance with rules and regulation on data privacy across the Group. These incidents, which were recorded at PNB, have all been addressed and immediately resolved in accordance with the Bank's Enterprise Information Security Policy and Enterprise Data Privacy Policy. We also regularly reiterate our Group-wide Data Privacy Policy for continued awareness. While the rest of our subsidiaries had zero cases of non-compliance with rules and regulation on data privacy, our commitment to ensuring data privacy and security remains strong to avoid similar incidents in the next reporting period.

Society

Community Relations and Initiatives

We consider the communities we operate in as our partners in value creation. From these communities, we are able to access a wealth of human and natural resources that contribute greatly to our success. We are committed to contributing back to the very communities that help us grow for their success is our success.

The Group's main corporate social responsibility (CSR) arm is the Tan Yan Kee Foundation, Inc. (TYKFI). Together with our partners, TYKFI pursues projects that focus on education, health services, social welfare and the environment.

In education, TYKFI maintains a number of scholarship and education activities. In partnership with the University of the East (UE), the UE-TYKFI Scholarship Program, an academic scholarship program for deserving UE undergraduates and faculty members, has 123 new and continuing scholars this year totaling to over 1,410 beneficiaries, including 18 faculty members and 103 grantees who have benefitted from the program in over 21 school years.

The TYKFI-STA Scholarship Program for Farmers' Children, which provides free private school education for deserving high school students from marginalized farming families, currently has 160 scholars from grades 7 to 12 in Sta. Teresita's Academy in Aritao, Nueva Vizcaya.

In partnership with the Foundation for Liberty and Prosperity (FLP), the TYKFI-FLP Legal Scholarship Program, a scholarship for selected junior and senior year law students who are at the top of their class, currently has 20 scholars across various law schools in the country.

TYKFI together with ABI has a Medical Specialty Scholarship Program that helps Filipino doctors finish specialty training abroad. Four (4) medical doctors completed their specialty training in

2019 with the help of the program: Dr. Andrei Paulo Angbue-Te, Dr. Noruel Gerard Salvador, Dr. Rosemarylin Or, and Dr. Giselle Gotamco.

Together with the Foundation for Upgrading the Standards of Education (FUSE), TYKFI sponsored the training of 133 teachers to update and upgrade their teaching skills across different subjects. The school supplies projects benefited 1,076 children while the food distribution project reached 1,179 children and teachers alike at the adopted schools. TYKFI also participated in Brigada Eskwela 2019 where Nagtenga Elementary School in Sta. Cruz, Ilocos Sur was provided with materials to help remodel three (3) old Marcos-type classrooms for kindergarten and second and third grade students. The Tan Yan Kee Library also conducted summer learning activities for children on Chinese literature, language and culture from May to July. From August to October, the library gathered a diverse group of 11 people aged 14 to 85 for its Chinese Ink Painting classes.

In health services, TYKFI continues to hold the monthly Asia Brewery Medical Forum in cooperation with the Association of Asia Brewery Medical Specialty Scholars. These forums provide the public with better health information as well as information on the latest treatment options. Some of the topics discussed in 2019 include eye conditions, gastrointestinal tract afflictions, common childhood diseases, kidney health and women's health. Doctors who are Asia Brewery Medical Scholars also provided free consultations during the forums. Meanwhile, TYKFI has partnered with LGUs and private medical specialists in extending free consultation to goiter patients.

In social welfare, TYKFI spearheaded a host of projects in partnership with sister companies as well as public and private organizations to help develop communities and improve their quality of life. It sponsored the training of seven (7) local government officials and six (6) teachers on good governance and solid waste management through a clean-up drive within a mangrove park in Boracay, Aklan. Aside from collecting almost 50 sacks of garbage, the participants also planted api-api, a local mangrove species in line with the *Roots for Boracay Project* in partnership with TDI, DENR and the local government of Barangay Manoc-Manoc.

TYKFI sponsored the skills enhancement training of 19 past trainees from farming communities in the towns of Kayapa and Sta. Fe, Nueva Vizcaya and Sta. Cruz, Ilocos Sur on basic cosmetology in partnership with Ang Hortaleza Foundation. 30 housewives were also trained in longanisa-making in the community of Las-Ud in Sta. Cruz, Ilocos Sur.

Together with Eton, TYKFI launched the Masaganang Palayan Project by donating high quality rice seeds and fertilizers to 18 farmers from Comon and Tabueng in Aritao, Nueva Vizcaya. Each of the farmers received an average of three (3) to five (5) sacks of hybrid rice seeds that can yield up to 100 to 110 *cavans* of high quality palay. Another project together with Eton is the TYKFI-Eton Joint Housing Assistance Project where four (4) newly-built houses were turned over to the families of four (4) scholars under the TYKFI-STA Scholarship Project

Together with TDI through Tanduay Athletics, TYKFI co-sponsored the Golden KAP Basketball Tournament, a grassroots sports development program participated in by community members from Aritao, Nueva Vizcaya and Carranglan, Nueva Ecija. The project was initiated to enable the youth to develop their skills in sports, instill the value of sportsmanship, and foster intercommunity goodwill and fellowship. Three (3) barangays from each of the two municipalities participated in the tournament with over 75 youth players.

In response to the aftermath of the earthquakes that displaced numerous families in Cotabato, TKYFI, together with Philippine Airlines, PNB and TDI, distributed *Chairman's Gift Boxes* filled with food and drinks to over 2,000 evacuees across five (5) evacuation camps in Makilala, Cotabato and Kidapawan City during the HOPE Caravan's disaster relief campaign.

TYKFI also helped PNB conduct a financial literacy seminar for 20 barangay treasurers from Aritao, Nueva Vizcaya.

In the protection of the environment, one of TYKFI's biggest undertakings is the Dr. Lucio C. Tan Legacy Forest Project. Started in 2014, over 787 hectares of the 930-hectare area for reforestation and protection in Barangay R.A. Padilla in Carranglan, Nueva Ecija have been planted with different varieties of timber, fuelwood, and fruit trees. Other planting and reforestation sites include the Laguna-Quezon Land Grant (LQLG) of the University of the Philippines Los Baños (UPLB) and parts of Nueva Vizcaya, as well as the Mangrove Rehabilitation Projects in Ilocos Sur and Boracay.

Apart from rehabilitating the forests, TYKFI provided livelihood opportunities by giving jobs to the farmers and teaching them new scientific methods of producing vegetables, and organic and ornamental plants. TYKFI also conducted holistic development programs for the farm workers that include values formation, wellness promotion and spiritual development. At the 56-hectare planting site in Barangay Joson in Carranglan called Friendship Park, various developmental activities have been conducted like intercropping, ring weeding, fertilizer application, hedgerow establishment, and road gravelling. In April 2019, more than 150 students from UPLB visited the project's Nueva Ecija site and learned about the goals, experiences, and sustainability efforts of the project.

In September and October 2019, 19 farming students from the Don Bosco Training Center in San Jose, Nueva Ecija who are NC-II-certified also went to the TYKFI farm project site to undergo a 10-day immersion program under their Supervised In-Plant training.

Due to its successful efforts in reaching out to the community, TYKFI was conferred the 2019 Global NGO Leadership and Excellence Award due to its holistic commitment framework in doing CSR that works to leave no one behind.

At ABI, through our Asia Brewery Manufacturing Operations Resources & Environment Sustainability (AMORES) project, the flagship sustainability project of ABI, we continue to drive further our commitment to environmental and community stewardship. Together with WWF Philippines as our partner, we conducted the Education is Adaptation program to teach schoolchildren and teachers the environmental impact of waste and the importance of waste segregation. With this program, we were able to conduct one (1) teachers' training and three (3) information sessions with students of Molino Elementary School, Panipuan Elementary School, and Baliti Elementary School all in the province of Pampanga.

At PNB, our Corporate Social Responsibility Policy drives forward our commitment to incorporate and implement CSR and sustainability-related initiatives in our operations. With the creation of our new Corporate Sustainability Unit, we are currently developing our sustainability policy, roadmap and framework. Annually, we allocate at least two percent of our net income to various CSR activities as education programs on financial literacy, and scholarships, as well as livelihood development initiatives and environmental campaigns.

At TDI, we have partnered with Dualtech Training Center to train their students under the Technical Education and Skills Development Authority's dual training system. Lasting for 18 months, Dualtech students spend time training with us at TDI from Monday to Friday and attending classes and other activities at their school during Saturdays.

In 2019, 89% of our local operations have implemented community initiatives.

LTG's Unique Key Material Issue

Over time, our Group has grown and expanded to include businesses in different industries with different challenges. In our journey to sustainability, we recognize these unique challenges as opportunities for us to show our skill and capability in meeting these challenges head on and create long-term value for our stakeholders.

Illicit Trade

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

The presence of smuggled and/or counterfeit tobacco products, also known as illicit cigarettes, in the country has created considerable challenges to our operations in PMFTC. As illicit cigarettes evade paying government-mandated excise taxes and value added tax (VAT), the price gap between illicit cigarettes and legitimate cigarettes is widened resulting to low prices of illicits compared to our licit low-priced brands. These illicit cigarettes then become an attractive alternative for smokers, particularly the youth and low-income groups. The legislated annual increase of excise taxes on tobacco products further widen price gaps and make illicit cigarettes even more attractive. It is a major economic problem for governments. In the Philippines, the Intellectual Property Office of the Philippines (IPO) reported that in 2018 alone, around Php20 billion worth of illicit cigarettes and illicit cigarette-making paraphernalia were seized.

1000+
participants to **63** engagements by PMFTC on raising awareness about the illegal cigarette trade problem

At PMFTC, we work closely with other affiliates of Philip Morris International, Inc. (PMI) to share intelligence and resources to fight illicit trade guided by the objectives and the principles of the WHO Framework Convention on Tobacco Control (FCTC) Protocol to Eliminate Illicit Trade in Tobacco Products. We also regularly engage various internal and external stakeholders to raise awareness about the illegal cigarette trade problem, which includes capacity building activities on how to spot an illicit cigarette product. In 2019, PMFTC conducted 63 separate engagements with over 1,000 participants who are trade and law enforcement partners, and PMFTC employees.

PMFTC is part of a multisectoral movement called "Fight IT (Illicit Trade)" led by the Federation of Philippine Industries (FPI) to curb unfair trade and secure national revenues and protect legitimate players in the domestic market. The Fight IT movement is also supported by sectors, of which common issues are smuggling and illicit trade in their industries, including rice, sugar, corn, palm oil, tobacco, steel, cement and ceramic tiles. With its strengthened fight against illicit trade, Fight IT action plans include: (1) to intensify its public information drive against illicit trade; (2) to develop a regulatory and fiscal information campaign designed to increase the awareness of retailers on illicit trade; and (3) to advocate for laws and regulations to mitigate illicit trade and support industry investigators who will monitor the illegal tobacco trade for the purpose of pushing for enforcements.

As part of the global PMI group, we at PMFTC channel our efforts on illicit trade through the following:

1. Fighting the diversion of our products by continuously improving measures to secure the supply chain with all stakeholders;
2. Sharing our knowledge with the impacted parties through continuous research, analysis, and communication of illicit trade issues and consequences; and
3. Pre-empting attempts to illegally divert our smoke-free products by assessing potential risks and by equipping our organization for this new challenge.

For further information, please refer to the PMI 2018 Sustainability Report thru this link: https://www.pmi.com/sustainability/sustainability-report.

APPENDIX

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GRI 418: Customer Privacy 2016	GRI 418 - 1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	147	-
GRI 413: Local Communities 2016				
GRI 103: Management Approach 2016	GRI 103 - 1	Explanation of the material topic and its boundary	138, 147-149	-
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Task Force on Climate-related Financial Disclosures (TCFD) Content Index

Recommended Disclosures	
Governance ***Disclose the organization's governance around climate-related risks and opportunities.***	
a) Describe the board's oversight of climate related risks and opportunities.	30-35, 137
b) Describe management's role in assessing and managing climate-related risks and opportunities.	30-35, 137
Strategy ***Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's business, strategy, and financial planning where such information is material.***	
a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	Still being studied
b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	143
c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	143
Risk Management ***Disclose how the organization identifies, assesses, and manages climate-related risks.***	
a) Describe the organization's processes for identifying and assessing climate-related risks.	140
b) Describe the organization's processes for managing climate-related risks.	140, 143
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	140
Metrics and Targets ***Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.***	
a) Describe the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	140-143
b) Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	142
c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	Processes are still to be set up for the future reporting of this metric

For the digital copy of the full 2019 Sustainability Report, please download at: https://ltg.com.ph/sustainability-reports/

LUCIO K. TAN, JR.

June 14, 1966 – November 11, 2019

Young Taipan, Sports Enthusiast, Man for Others

Believing in the power of sports in inspiring individuals to work hard for their goals, he promoted the love for sports among employees which, in turn, transcended many barriers in the workplace.

Lucio 'Bong' Tan, Jr. was a young visionary whose eyes were set on building a strong future for LT Group, Inc. and his country, the Philippines.

He followed his destiny as the dutiful son and namesake of taipan Dr. Lucio C. Tan. Together, they shared the vision of building a world-class conglomerate at the forefront of the country's economic growth.

But Bong was also very much his own man, boldly pursuing new initiatives and injecting fresh ideas for the advancement of LT Group and society at large. In pursuing this vision, Bong was armed with the rare combination of an educational training as an engineer, an unparalleled passion as a sportsman and a strong advocacy for the environment.

Born in Manila in 1966, Bong was into different sports and mind games while growing up. He went to Saint Jude Catholic School in Manila for his grade school education during which he became part of the Philippine Swimming Team.

After grade school, he went to Dunman High School in Singapore where he developed a keen interest in basketball. He later took Chinese Language and Ancient Chinese History courses at Beijing University, believing that one can only be ready for the future by learning lessons of the past.

After graduating with a Civil Engineering degree from the University of California, Davis in 1991, he pursued higher studies and took up the Executive Master of Business Administration Program at Kellogg School of Management Northwestern University through a link-up with the Hong Kong University of Science and Technology. Afterwards, he returned to the Philippines to help his father manage his many businesses.

His first job at Fortune Tobacco Corporation was as a tobacco checker. He studied different grades of tobacco leaves before they could be processed into cigarettes. Years later, he became President of Tanduay Distillers, Inc., its subsidiary Absolut Distillers, Inc. and Eton Properties Philippines, Inc. aside from sitting in the Board of LT Group, Inc. and other Lucio Tan Group member firms.

Under his leadership, TDI strengthened into an iconic Filipino brand. It became the world's number one rum for 2018 and 2019, beating Puerto Rican brand Bacardi, according to Drinks International.

TDI also started various green initiatives like the bioethanol facility of Absolut Distillers, Inc. The Company was among the first distilleries in the Philippines to heed government's call for bioethanol production, in an effort to provide a sustainable and clean source of energy for the transport sector.

In Eton, Bong spearheaded the development of the Company's various product offerings – from homes to commercial spaces – always keeping in mind the clients' evolving needs. With him at the helm, Eton was able to strike an optimal balance between sales and recurring revenue.

Though regarded as a prince in Philippine business, Bong always exuded an unassuming, youthful and down-to-earth demeanor. He never lost sight of Chairman Tan's vision of building a world-class conglomerate that contributed to the country's economic growth.

His charismatic leadership style and sportsmanship greatly endeared him to the employees of the Lucio Tan Group, their clients and other stakeholders.

Believing in the power of sports in inspiring individuals to work hard for their goals, he promoted the love for sports among employees which, in turn, transcended many barriers in the workplace.

He was a team player himself, leading his employees to always strive for a harmonious work environment that made them better equipped to handle challenges of the future.

Without doubt, Bong left member firms of the Lucio Tan Group in a better place than when he first found them, enabling these companies to contribute better to nation-building.

Indeed, like his favorite Marvel superhero Iron Man, Bong strived to the very end to make his real life Marvel Universe better and stronger for his countrymen. He will be greatly missed.

BOARD OF DIRECTORS


Michael G. Tan
President and Chief Operating Officer


Juanita T. Tan Lee
Director and Treasurer


Dr. Lucio C. Tan
Chairman and Chief Executive Officer


Johnip G. Cua
Independent Director


Mary G. Ng
Independent Director


Wilfrido E. Sanchez
Independent Director


Carmen K. Tan
Director


Harry C. Tan
Director


Lucio C. Tan III
Director
Appointed on December 17, 2019


Lucio K. Tan, Jr.⁺
Director
Deceased on November 11, 2019


Vivienne K. Tan
Director


Florencia G. Tarriela
Independent Director

BOARD OF ADVISORS


Peter Y. Ong
Advisor

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Chief Financial Officer


Nestor C. Mendones
Deputy Chief Financial Officer


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LT GROUP, INC.

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