



Steadfast Amidst the Crisis

2020 ANNUAL REPORT



LT GROUP, INC.



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.

VISION

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

MISSION

Anchored to its Vision, the LT Group commits:

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

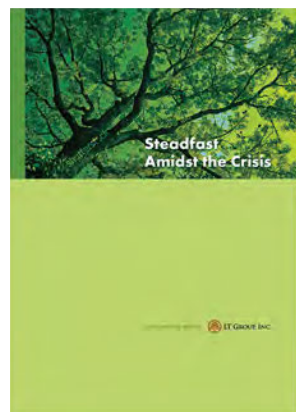
(The Vision and Mission Statements are reviewed and approved annually by the Board of Directors. The latest reviews were on January 17, 2020 and February 7, 2021.)



Steadfast Amidst the Crisis

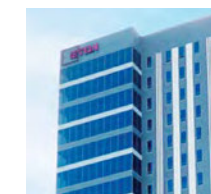
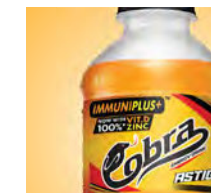
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OUR COVER

The strongest trees have the deepest roots. Roots that hold unshakable against wind, rain and time. Just like these trees, it is LTG's deeply rooted and strong foundations that have helped the Company remain strong and steadfast amidst the crisis of the year 2020.



2020 ANNUAL REPORT

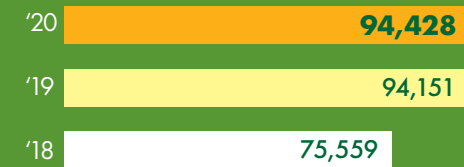


LT GROUP, INC.

FINANCIAL SUMMARY

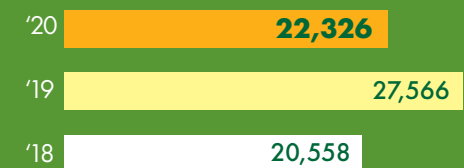
REVENUES

in Php Millions



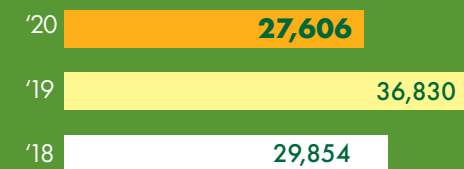
NET INCOME

in Php Millions



EBITDA

in Php Millions



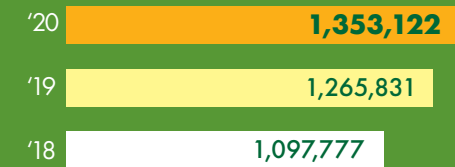
PER SHARE DATA

in Php, except Pay-out Rate

	2020	2019	2018
Earnings per Share	1.94	2.14	1.50
Book Value (at year end)	17.13	17.27	15.98
Cash Dividend	0.81	0.30	0.20
Pay-out Rate	37.91%	20.04%	19.98%

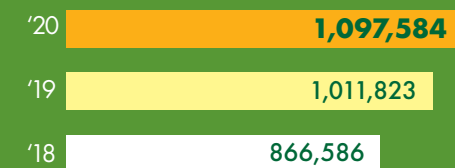
TOTAL ASSETS

in Php Millions



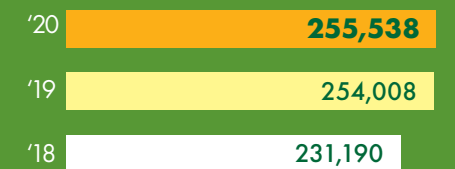
TOTAL LIABILITIES

in Php Millions



TOTAL EQUITY

in Php Millions



RATIO

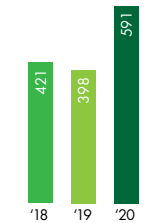
	2020	2019	2018
Current Ratio	0.72	0.60	0.61
Current Ratio (w/o PNB)	2.82	2.36	4.03
Debt to Equity Ratio	4.30	3.98	3.75
Debt to Equity Ratio (w/o PNB)	0.16	0.17	0.14
Return on Average Assets	1.6%	1.6%	1.6%
Return on Average Equity	11.3%	10.1%	10.1%

OUR BUSINESSES AT A GLANCE

ASIA BREWERY INCORPORATED

99.9% OWNERSHIP

Asia Brewery, Inc. started as a brewery in 1982. It also 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.

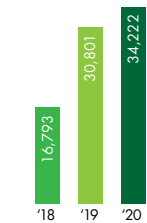


Net Income
in Php Millions

PMFTC INC.

49.6% OWNERSHIP

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.

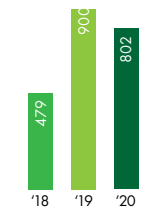


Net Income
in Php Millions

ETON PROPERTIES PHILIPPINES, INC.

99.6% OWNERSHIP

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

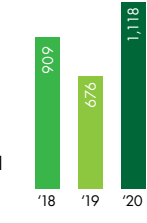


Net Income
in Php Millions

TANDUAY DISTILLERS, INC.

100% OWNERSHIP

Tanduay Distillers, Inc. has a 99% market share of rum in the Philippines and is the world's number one rum in terms of volume. In 2016, Tanduay started selling ethanol to fuel companies. It diversified into selling ethyl alcohol in 2020.

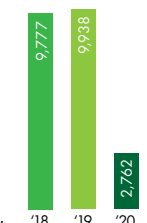


Net Income
in Php Millions

PNB

56.47% OWNERSHIP

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

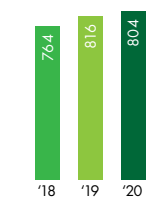


Net Income
in Php Millions

VICTORIAS MILLING COMPANY, INC.

30.9% OWNERSHIP

Victorias Milling Company, Inc. is one of the country's largest sugar refineries, based in Negros Occidental.

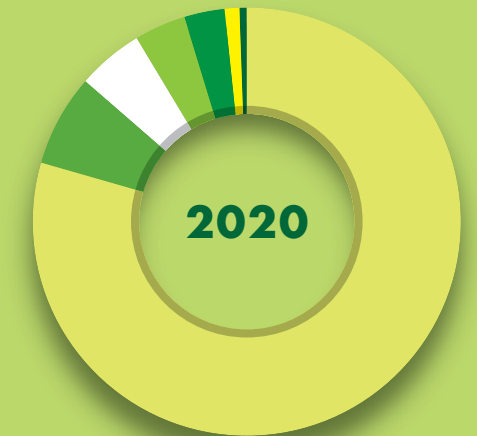


Net Income
in Php Millions

Note: For the crop years September to August

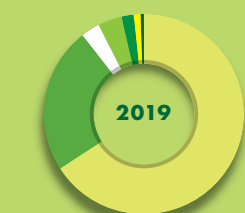
Attributable Net Income Contribution to LTG

in Php Millions

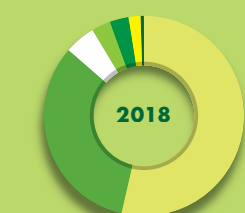


		% to total
TOBACCO	16,825	80%
BANKING	1,550	7%
DISTILLED SPIRITS	1,104	5%
PROPERTY DEVELOPMENT	799	4%
BEVERAGE	583	3%
VMC	264	1%
OTHERS	(104)	0%
TOTAL	21,021	100%

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



		% to total
TOBACCO	15,499	67%
BANKING	5,565	24%
DISTILLED SPIRITS	667	3%
PROPERTY DEVELOPMENT	896	4%
BEVERAGE	398	2%
VMC	251	1%
OTHERS	(158)	-1%
TOTAL	23,118	100%



		% to total
TOBACCO	8,716	54%
BANKING	5,468	34%
DISTILLED SPIRITS	890	5%
PROPERTY DEVELOPMENT	479	3%
BEVERAGE	421	3%
VMC	247	1%
OTHERS	(26)	0%
TOTAL	16,195	100%

Our Partnerships



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

Currently, the Company imports yogurt from Spain and distributes it in the Philippine market under the Pascual brand. Different variants cater to a wide array of customers, from Original, Non-fat, Thick and Creamy to Greek Style. Recently, the Company introduced a new variant, Chocolate Pudding. Pascual Yogurt reported the fastest growth brand with +12% , with a consolidated market share of 79% in convenience stores for the year 2020 per AC Nielsen.



The continuous success of Pascual Yogurt has paved the way for soon-to-launch new dairy products manufactured in the Philippines for the local market, and in the future for export to other ASEAN markets.

The year 2020 proved to be the start for AB Pascual Holdings Pte. Ltd. in building a robust JV company with a dairy portfolio that offers high quality, healthy and affordable products for Filipinos.



AB Heineken Philippines, Inc. (ABHP) was a 50%-50% joint venture between Asia Brewery, Inc. and the globally-renowned Dutch brewer, Heineken International B.V. that officially commenced operations in November 2016.

On October 13, 2020, the companies disclosed an agreement to transition the

ABHP joint venture to a new partnership structure to produce and distribute the HEINEKEN beer brands Heineken® and Tiger® in the Philippines. HEINEKEN will establish a sales and marketing office based in Manila and will engage Asia Brewery to brew and distribute its beers in the country. The transition was completed last December 31, 2020.



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. The groundbreaking ceremony was held in January 2018.

Construction of the 110-meter long iconic bridge which will link Pasig and Quezon City over the Marikina River is ongoing, creating a new route to help ease vehicular traffic in the northeast and east of Metro Manila.

Also underway is the construction of the Parklinks Mall, with an area of 58,000 square meters, as well as residential buildings Parklinks North and South Towers and The Lattice.



Allianz PNB Life Insurance, Inc. is a joint venture between global insurance leader Allianz SE, and local banking giant, the Philippine National Bank. 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.

Allianz PNB Life's wide range of products addresses the needs of PNB's customers, from securing their health to protecting their future. The Company offers eAZy Health, an affordable and renewable 5-year insurance solution that will help customers focus on their well-being and health. Another flagship product that Allianz PNB Life offers is Allianz Well! This health plan supplements insurance features with value-added wellness and lifestyle services and benefits.

While its bancassurance partnership with PNB remains its primary distribution channel, Allianz PNB Life has also strengthened its reach to a wider customer base. The Company has onboarded close to 2,500 Life Chargers composed of agents and financial advisors nationwide. In response to the challenges brought about by the COVID-19 pandemic, the Company has fast-tracked and strengthened its digital capabilities meant to provide better customer and distributor experience through e-applications, e-policies, e-notices, and e-learning. This digitalization focus aims to make the organization more streamlined and help it pursue sustainability targets.



In 2020, Allianz was recognized as the world's #1 insurance brand for the second consecutive year, according to Interbrand's Best Global Brands Ranking. This recognition measures a Company's economic profit that can be allocated to branded sales, the role of the brand in influencing purchase decisions, and the brand's strength across various internal and external factors. Across all brands from different industries, Allianz ranked 39th among 100 companies.

Allianz PNB Life has put further emphasis on sustainability by creating initiatives that will contribute to the betterment of

the community. The Company partnered with social enterprise reach52 to launch "Allianz Kaagapay" that aims to support the underserved, vulnerable people in low-income populations in rural communities across Iloilo. Another green project that Allianz PNB Life embarked on was the Ride Safe Program which is in line with the Company's commitment to sustainable mobility. In partnership with the City of San Juan, the Company unveiled the country's first solar-powered bike pit stop in the country, patterned after the design of Allianz race car pit stops of Formula 1 races.



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 67.2% in 2020. PMFTC manufactures 6 out of the top 10 brands available in the market today led by Marlboro, the world's number one cigarette brand, and Fortune, one of the largest heritage home-grown brand in the Philippines.

MESSAGE FROM THE CHAIRMAN



“Difficult as it may seem, the pandemic gave us the chance to work harder, to innovate and to be a force for good to our countrymen, our customers and partners and our own employees.”

– LUCIO C. TAN

Dear Shareholders,

2020 was a very challenging year. COVID-19 and a series of natural disasters caused untold suffering on our country, the economy and our people. My heart goes out to those who lost loved ones, got laid off from work and who continue to live in uncertain times.

LT Group, Inc. (LTG) was not spared by the pandemic’s economic fallout. While our income dropped, we were more fortunate than others. We managed to remain profitable due to the collective contributions of our various companies.

In a year of turmoil, our Group remained strong due to our hardworking and resilient workforce. When COVID-19 struck, our priority was to keep our employees safe, our production lines running, and to ensure unhampered delivery of our products and services. Despite limited movement and transportation, technology and digital communication played crucial roles to make these happen.

We thank our employees who continued to report for work despite the odds. We are also grateful to those who demonstrated genuine concern by serving our customers from behind the counters or while working from home.

In the early months of 2020, a series of calamities like the Taal Volcano eruption and successive typhoons hit the country. As part of our Group’s Corporate Social Responsibility (CSR), we donated water and relief goods to those most affected. When the pandemic hit, we stepped up our efforts by recalibrating our production lines to produce and donate thousands of liters of ethyl alcohol to our frontliners. Through our CSR program called “Help Flows,” we also donated bottled water, personal protective gear,

N95 facemasks, thermal scanners, respirators and ambulances. The Molecular Laboratory of the Philippine Red Cross in Batangas City was also donated by LT Group, Inc.

To safeguard the health and well-being of our employees, we signed a tripartite agreement with the national government and business advocacy group Go Negosyo late last year for the purchase and importation of vaccines. We committed to donate half of those vaccines to the government to inoculate more Filipinos.

Through all the challenges of fiscal year 2020, our unity and dedication have been our greatest source of strength. Difficult as it may seem, the pandemic gave us the chance to work harder, to innovate and to be a force for good to our countrymen, our customers and partners and our own employees.

As your Chairman, I take this opportunity to thank you, our employees – in particular our executives and frontline workers – for your outstanding commitment and hard work. We thank our customers and the communities where we operate for their support. And we thank you, our shareholders, for your continuing trust and confidence in our company.

Dr. Lucio C. Tan
Chairman

MESSAGE FROM THE PRESIDENT



The year 2020 was like no other. It started with the eruption of Taal Volcano on January 12, with reports of the coronavirus disease (COVID-19) in other countries coming in. The first case in the Philippines was identified in late January which eventually led to the start of the pandemic. An Enhanced Community Quarantine (ECQ) was declared in Metro Manila in mid-March and expanded to other areas thereafter up to end-May, but was reinstated as Modified ECQ for two weeks in August. The year also ended with two strong typhoons, Super Typhoon Goni (local name Rolly) in early November and followed by Typhoon Vamco (local name Ulysses) less than two weeks later. Both devastated many areas and caused massive flooding and landslides.

With jobs affected worldwide, the Philippine Government repatriated over 300,000 Overseas Filipino Workers (OFWs) from over 90 countries in 2020. OFW remittances fell by 0.8% in 2020 to USD33.2 billion, still a higher amount than expected, as OFWs found ways to send funds to their struggling families. These remittances accounted for 9.2% of the Gross Domestic Product (GDP).

The Information Technology-Business Process Outsourcing (BPO-IT) Industry managed to remain resilient, with revenues estimated to have dropped by only 0.5% in 2020 to USD26.2 billion from USD26.3 billion. No jobs were lost as the industry was able to rapidly adapt to work-from-home arrangements to continue servicing their clients. The country's unemployment rate, however, hit a high of 17.6% in April before easing and ending the year at 10.3%. This translates to 4.5 million Filipinos looking for jobs, significantly higher compared to the 5.1% unemployment rate in 2019. Household Consumption and Expenditure declined by 7.9% in 2020.

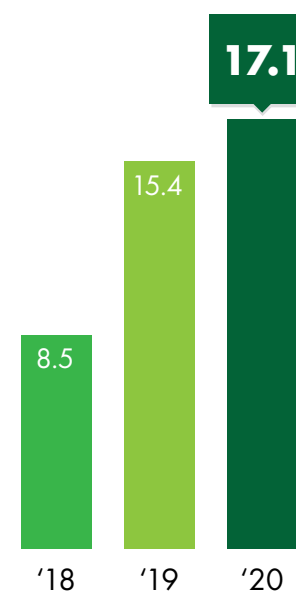
As a result of all these, the Philippines' GDP shrank by 9.5% in 2020, the worst contraction since the government released data in 1947, after World War II.

LT Group, Inc. (LTG) managed to remain **steadfast amidst the crisis**, on the back of its strong financial position built through the years. Some of our Company's businesses were adversely affected, but LTG was able to end 2020 with an attributable net income of Php21.02 billion, Php2.10 billion or 9.1% less than the Php23.12 billion reported for 2019. The drop in income is mainly due to the substantial decline in Philippine National Bank's (PNB) income due to provisioning for loan losses.

PMFTC still accounts for the bulk of earnings at 80%

Equity in Net Earnings

In Php Billions



The industry's volume is estimated to have declined by 12% in 2020 due to the end-Aug 2019 and October to November 2020 price increases to pass on the additional excise taxes, coupled with the impact of the quarantines because of COVID-19, PMFTC's volume was 16% lower year-on-year in 2020.

Illicit activities have been on the rise since ECQ was declared in March. In 2020, there were 171 enforcements, compared to 114 in 2019. A total of

161 machines were seized from illegal factories, double the 82 machines seized in 2019. These machines can form 24 lines, with each line estimated to produce as much as 3 million sticks per day.

Equity in net earnings from LTG's 49.6% stake in PMFTC was 11% higher year-on-year (y-o-y), due to the higher share of premium *Marlboro* with customers shifting from mid-priced *Fortune*, as well as the price increases to pass on higher excise taxes.

President Duterte signed Republic Act (RA) 11346 in July 2019 which further increased the excise tax on tobacco starting January 2020. From Php35 per pack in 2019, it increased to Php45 per pack in 2020, and will increase by Php5 per pack annually from 2021 to 2023, then increase by 5% annually thereafter. LTG is not against tax increases, but believes that the hikes should be moderate. Continued price hikes to pass on higher excise taxes may result in further volume declines.

Philippine National Bank's (PNB) earnings pulled down by provisioning for loan losses

Net Income

In Php Billions



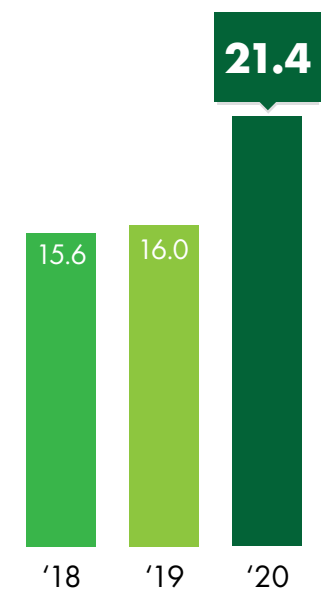
PNB's net income under the pooling method was 72% lower in 2020. This was due to the Php16.9 billion provision for credit losses that the bank booked in 2020, 5.8x higher than 2019, largely due to the ongoing COVID-19 pandemic that has resulted in a downturn in the economy.

While Net Interest Income and Trading & Foreign Exchange Gains were higher which more than offset the lower Net Service Fees & Commission Income, the substantial increase in provisions dragged the Bank's earnings. Net Non-Performing Loans (NPL) ratio was at 6.9% as of December 2020, while NPL cover stood at 43%, from 119% as of end-2019.

Tanduay Distillers, Inc.'s (TDI) liquor sales grow amidst the pandemic and localized liquor bans

Liquor Revenues

In Php Billions

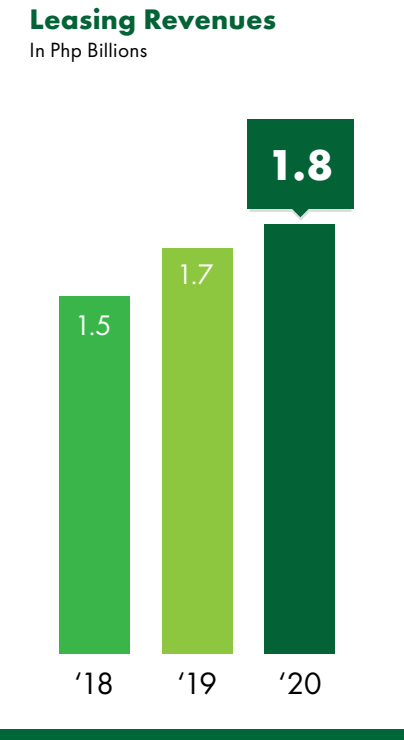


TDI's net income for 2020 was 65% higher y-o-y. The higher income is largely due to the 16% increase in the volume of liquor sales and a 34% decrease in selling and marketing expenses.

Liquor prices were higher as an average Php160 per case price increase was implemented in January to pass on the higher excise taxes that took effect starting March 2020. While bioethanol revenues were 24% lower y-o-y, rectified alcohol contributed a significant part of revenues at Php1.7 billion, from Php627 million in 2019, as demand for alcohol surged during the pandemic.

Tanduay continues to enjoy a strong following in the Visayas and Mindanao areas, with market share as of the end of 2020 at 62.2% in the Visayas and 78.9% in Mindanao.

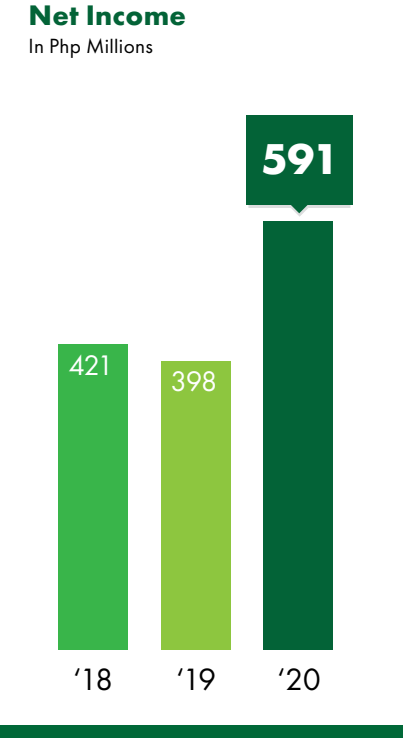
Eton Properties Philippines, Inc.'s (Eton) leasing revenues remained resilient



Eton's leasing revenues were 3% higher as the Company was largely able to maintain occupancy rates and lease rates over the year as well as from additional space that came on stream. Additions to the leasing portfolio came from Eton WestEnd Square in Makati City during 2Q19 and from Five Cyberpod Centris in Quezon City with close to 43,000 square meters starting 3Q19.

Eton's net income for 2020 was Php802 million, 11% lower than 2019's Php900 million. The lower net income is attributed to the decline in residential unit sales.

Asia Brewery, Inc. (ABI) sales volumes impacted by COVID-19 quarantines



ABI's products suffered volume declines as a result of the various levels of quarantine, particularly in Metro Manila which accounts for two-thirds of the country's economic activity. With the majority of people working from home, on-the-go sales in convenience stores as well as in supermarkets were adversely affected.

However, ABI's net income was 48% higher in 2020 largely due to the absence of any losses booked from the AB Heineken joint venture as the partnership transitioned in 2021 to the engagement of ABI to brew and distribute Heineken® and Tiger® beers in the Philippines.

Cobra energy drink and Vitamilk soymilk continue to be market leaders, while bottled water brands Absolute and Summit have the second highest market share.

Outlook

For 2021, the Government projected a GDP growth of between 6.5% to 7.5%. But with the imposition of a two-week ECQ in Metro Manila and nearby provinces in late March to mid-April, acting Socioeconomic Planning Secretary and National Economic and Development Authority (NEDA) Chief Karl Kendrick Chua said that this will shave off 0.8 percentage points from the full-year economic growth of 2021. Any more lockdowns in the future should have a similar impact on the economy.

The country got off to a slow start in 2021, but with the vaccination program of the government underway and the private sector starting soon, hopefully, our economy can open up more as more people get inoculated, and businesses can operate at efficient levels and thereby provide more jobs.

A factor that will unfavorably impact the rebound of the economy is inflation. While inflation averaged 2.6% in 2020, it has been going up since October 2020, and the Government has revised upwards its 4% target for 2021 to 4.2%. The inflation rate hit 4.2%, 4.7% and 4.5% in the first three months of 2021, on the back of rising prices of food and oil.

Moreover, the Department of Labor and Employment said that aside from the around 200,000 OFWs that went home in the first quarter of 2021, about 60- to 80,000 more are expected for the rest of the year.

This year will still be a tough one, but hopefully better than 2020. Vaccination is a crucial step towards the path to normalcy. It is crucial for opening up the economy. While we may not entirely and immediately get back our old life, it is an important step to get back some of what we once had.

For its part, LTG has secured enough vaccines for the over 50,000 employees and service providers of the Lucio Tan Group of Companies, and has also provided access to these vaccines for their families.

While we remained **steadfast amidst the crisis** in 2020, the slow opening up of the economy in 2021 should bode well for all businesses in general. We expect the demand for our consumer goods, those of TDI and ABI, to show some volume growth or at least remain steady. But the volume of PMFTC's products might still be impacted, as price increases are needed to pass on the annual increase in excise taxes, the last of which was in October 2020. The Bank will see some more NPLs booked as Bayanihan 1 and 2 that provided a grace period for borrowers ended in 2020, but a better economy should pave the way for the need of more loans. Eton, with most of its leasing portfolio in office space will not be as affected as other developers who are more reliant on retail space.

And as always, I would like to close this message by thanking our stakeholders for the continued support and trust in your Company and our Board of Directors, management team and all our employees for their dedication and hard work through these not so normal times. We have been through a rough year and together we will see our Company come out of this stronger and better.


Michael G. Tan
President and Chief Operating Officer

MESSAGE FROM THE CFO



For the year 2020, LT Group, Inc.'s (LTG) total revenues amounted to Php94.43 billion, an increase of Php0.28 billion or 0.3% over 2019's Php94.15 billion revenues. The distilled spirits segment reported an increase in revenues over the previous year, while beverages, banking and property development segments reported lower revenues year-on-year (y-o-y).

The attributable net income of LTG reached Php21.02 billion, Php2.10 billion or 9.1% lower than 2019's Php23.12 billion. In 2020, the tobacco, distilled spirits and beverage segments posted higher net income versus the previous year, while the banking and property development segments netted lower y-o-y.

On a per-segment contribution to LTG's attributable income for 2020, 80% was from the tobacco business, 7% from Philippine National Bank (PNB), 5% from Tanduay Distillers, Inc. (TDI), 4% from Eton Properties Philippines, Inc. (Eton) and 3% from Asia Brewery, Inc. (ABI). Given LTG's 30.9% ownership of Victorias Milling Company, Inc. (VMC), 1% of total attributable income, or Php264 million, was booked as equity in net earnings from this investment.

The contribution of the tobacco business reached Php16.83 billion, a Php1.33 billion or 8.6% improvement over 2019's Php15.50 billion. The tobacco business' income is primarily from the equity in net earnings of LTG's 49.6% stake in PMFTC Inc. (PMFTC), which amounted to Php17.11 billion in 2020, a Php1.71 billion or 11.1% increase versus 2019's Php15.40 billion. Despite a volume drop and an excise tax increase, this contribution increased on higher prices and improved product mix. The most recent excise tax law on tobacco, Republic Act (RA) 11346, was passed on July 25, 2019. The tax program first imposed a Php10 increase from Php35 per pack to Php45 per pack in January 2020, after which an annual step-up of Php5 per pack from 2021 to 2023 becomes effective, then starting 2024 levies a 5% annual increase.

PNB's 2020 contribution amounted to Php1.55 billion. This 72.1% drop of Php4.02 billion from the previous year was on the back of higher provision

for credit losses due to the expected pandemic-related impact on the Bank's loan portfolio. The provisioning was cushioned by higher treasury-related income.

TDI's contribution was Php1.10 billion, an increase of Php437 million or 65.5% higher than 2019's Php667 million. Improved volumes in the liquor business boosted the distilled spirits' 2020 performance. This was coupled with stronger denatured alcohol business and intensified cost minimization as well as supply chain efficiency initiatives, which all in all covered for pandemic-driven effects on bioethanol demand.

Eton's contribution amounted to Php799 million, Php97 million or 10.8% lower than the previous year's Php896 million on weaker 2020 sales, while attaining fair growth in rental income from the leasing and hotel businesses.

ABI's contribution was Php583 million, Php185 million or 46.5% higher than 2019. ABI's 2020 income was mainly due to it not incurring losses from its joint venture with Heineken. Sales volumes decreased and product mix underwent changes as the community lockdowns hampered mobility and caused lifestyle adjustments among target consumers. The beverages segment also managed expenditures, particularly its advertising and promotions.

On June 19, 2020, LTG paid a regular cash dividend of Php0.15 per share and a special cash dividend of Php0.28 per share. Thereafter, the Company paid out special cash dividends two times: Php0.23 in September, and another Php0.15 in December. These dividend issuances totaled to Php8.77 billion, or 37.91% of LTG's 2019 attributable income of Php23.12 billion. The Company's dividend payout policy is 20%.

During the year 2020, LTG fully redeemed the remaining Php8.54 billion of preferred shares it had issued in 2013 and 2014.

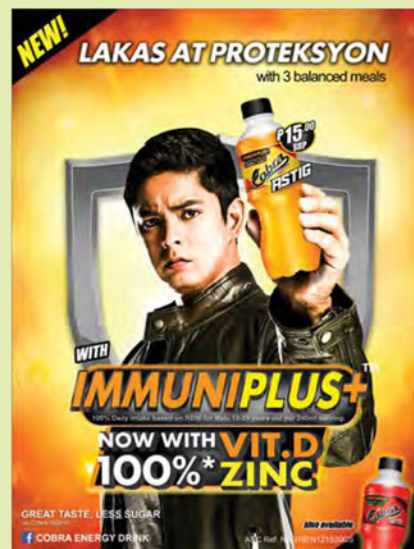
Total capital expenditure was Php4.94 billion in 2020. PNB invested Php1.51 billion for IT and branch-related infrastructure projects. Eton invested Php0.90 billion for the ongoing construction of its projects. TDI spent Php0.74 billion primarily towards

upgrades in its bioethanol plant. ABI spent Php0.70 billion on plant improvements. LTG also invested Php1.08 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 Php649 million as of end-2020. Debt-to-Equity Ratio was at 4.30:1 with the Bank, and at 0.16:1 without the Bank.

Jose Gabriel D. Olives
Chief Financial Officer

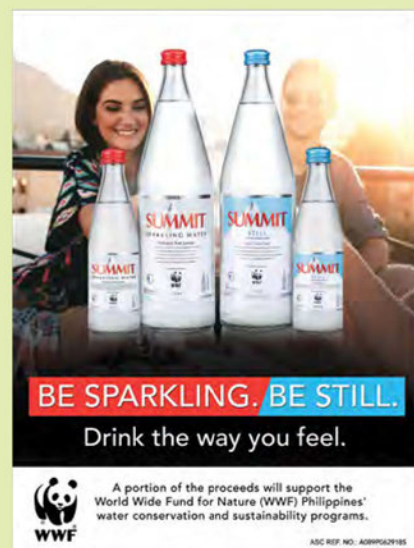
Asia Brewery, Inc.



Asia Brewery, Inc. (ABI) commenced operations in 1982 with the vision of breaking the Philippine beer monopoly. It has evolved since then and is now a major player in the Philippine beverage and industrial packaging industry.

ABI continues to hold on to its leading position with its top-selling non-alcoholic brands in the local beverage market: Cobra (#1 energy drink), Vitamilk (#1 soymilk), Absolute (#1 distilled drinking water) and Summit (#2 mineral water). It is also one of the major players in the industrial packaging industry, producing glass container requirements for major beverage and condiments manufacturers in the country.

In 2020, the COVID-19 pandemic pushed the whole world into a 'new normal' where the public was encouraged to stay at home and practice social distancing. This brought about major changes in buying behavior and consumption patterns which resulted in industry-wide declines in volume of consumer goods, including beverages. Mobility restrictions from strict government-imposed lockdowns and the subsequent mass closures of retail outlets resulted in major challenges in the distribution and sale of 'on-the-go products'. Despite this, Cobra's strong brand kept demand for the product stable. The shift in consumer preference towards healthier food and drink offerings helped sustain Vitamilk's



leading position in the soymilk segment, while the growth in multi-serve packs of Absolute and Summit helped curb the decline in volumes of bottled water.

The pandemic, in particular, affected the beer market profoundly with lockdowns and outright bans on consumption which saw sales volumes decline by more than 30% for the year. The depressed industry and the uncertainty of medium term market conditions led to ABI and Heineken International B.V.'s decision to transform its partnership in the alcoholic beverage joint venture, AB Heineken Philippines, Inc. (ABHP). Starting 2021, ABI would take over all manufacturing and distribution activities of alcoholic beverages and management of its legacy brands, while the latter would focus on the development of the Heineken and Tiger Crystal brands in partnership with ABI.

Backed by strong brands and a wide portfolio across the different categories in the beverage industry, ABI was able to generate revenues of Php13.28 billion in 2020. While this was a 17% decline from Php15.93 billion in 2019, sales volumes actually improved in the latter part of the year, in spite of the economic difficulties caused by the COVID-19 pandemic, especially when Metro Manila and nearby provinces were put under stricter quarantines or lockdowns.

Even as lower volumes and increasing prices of some strategic materials caused upward pressure on manufacturing costs, ABI was able to achieve a gross profit margin of 26%, down only by 1% from the 27% achieved in 2019. ABI's continuous efforts to innovate and improve manufacturing costs allowed it to control costs in other areas.

Operating expenses were 10% lower year-on-year mainly from rationalized spending on advertising and marketing. ABI's net income amounted to Php591 million in 2020, Php193 million or 48% higher than in 2019.

Cobra upheld its market leadership commanding 72% of the energy drinks market. Cobra volumes remained stable despite aggressive price-off programs employed by its main competitor in strategic areas mainly due to efficiency improvements



in its route to market systems. With its sustained revenue base, Cobra remained as the Company's flagship product, accounting for over a third of revenues.

Bottled water remained as ABI's second biggest contributor to revenues despite a 33% industry-wide contraction in sales. Absolute and Summit bottled water brands ranked second with a 25% market share, just trailing behind the low-cost competitor on the strength of its brand image as the preferred bottled water by the Filipino family. Sales of its large pack variants continued to grow in spite of the decline of the overall industry.

Pioneering the local production of drinking water in premium glass packaging, Summit Still and Summit Sparking were launched in November 2017. Summit continues to be the #1 brand in the still and sparkling water in glass format category.

Vitamilk continued to dominate the soymilk market with 76% market share due to its strong position as the healthy drink of the young adult.



Eton Properties Philippines, Inc.



Centris Cyberpod Five

Despite the economic challenges brought about by the COVID-19 pandemic, Eton Properties Philippines, Inc.'s (Eton)' leasing income from rental properties in 2020 grew by 2.9% to Php1.76 billion from last year's Php1.71 billion. By partnering with established and sustainable brands and companies, the Company remains consistent with its aim to improve the quality of revenue earnings coming from its real estate portfolio.

Recognizing the impact of the pandemic early on, Eton has maintained relatively stable performance from adjustments in strategies and prudence in the development of resources. Although a smaller step than initially planned, leasing income increased and cost reduced. As a result, Eton was able to mitigate the adverse impacts of the pandemic and still attained an improvement of 11% on its gross profit margin and achieved an EBITDA of Php1.8 billion and a net income of Php802 million for the year 2020. Likewise, Eton achieved healthier Net Income Ratio, Current Ratio and Debt-to-Equity Ratio for the year.

This pandemic gave Eton the rare opportunity to recognize market needs and is ready to seize that chance. Although quarantine restrictions affected consumer activity for most of 2020, new commercial tenants managed to open their doors to the

public in the third quarter. This list includes America's favorite fried chicken, Popeyes; local favorite, Pares Retiro; IQOS and Maxicare Primary Care Center, which all opened in the BPO-IT lifestyle hub, Eton Centris in Quezon City.

As the economy transitions to full reopening, Eton is well positioned to capture business opportunities in the retail and office sectors. Eton currently has a leasing portfolio of around 181,000 square meters of office space and over 45,000 square meters of retail space.

Construction work has resumed in ongoing projects after a respite due to quarantine restrictions. This includes Blakes Tower, a



Eton WestEnd Square Makati



Artist's Perspective of Eton City Square in Laguna



Aerial shot of Eton City Square



Eton Centris Walk Cluster

36-storey office and residential building in Makati City which will have 11,400 square meters of office space and 14,000 square meters of residential space once completed. In the pipeline is Eton City Square 1, the 4.3 hectare neighborhood retail and commercial center in Sta. Rosa, Laguna. Its first phase will add 7,200 square meters of gross leasable area to Eton's commercial leasing portfolio. Revenues are projected to increase from the rental revenues coming from Blakes Tower and Eton City Square. NXTower I is also underway, an office building located between Emerald Avenue and Ruby Road in Ortigas which will offer 21,000 square meters of gross leasable area.

With our well-balanced portfolio of office and commercial projects, coupled with Management's prudence as it moves forward, Eton is confident that it can sustain its growth despite the uncertainties ahead.

ZERO ANNUAL FEES LOW INTEREST



Philippine National Bank

Financial Performance

Philippine National Bank's (PNB) net profit before provisions for impairment and taxes, reached Php17.8 billion, an increase of 17% year on year, driven by continued improvement on net interest income and robust trading gains amid the pandemic.

PNB's net interest income, which comprised 79% of the total operating income, increased by 11% to Php35.8 billion as this was supported by lower funding cost. Interest expense on deposits declined by almost half its year-ago level despite an 8% growth in deposits amounting to Php890.3 billion, as the bulk of these incremental deposits continued to be in low-cost funds. This was combined with the reduction in high-cost deposits partly due to the maturity of Php7.0 billion worth of Long-Term Negotiable Certificates of Time Deposit (LTNCDs).

On the other hand, interest income on loans and receivables decreased by 4% as the Bank's loan portfolio declined by 9% year-on-year to Php600.0 billion. This reflected the weak demand for loans owing to economic uncertainties as well as PNB's strategy to focus on strengthening its liquidity position by investing most of the available funds in short-term and more liquid placements to remain resilient during the pandemic.

The Bank took advantage of favorable market opportunities during most part of the year, resulting in more than a three-fold increase in net trading securities gains to reach Php3.3 billion. These gains more than compensated for the decrease in net

service fees and commission income which was significantly reduced by the general decline in corporate banking transactions. In addition, the Bank waived fees on local interbank transfers and overseas remittances as an affirmation of its commitment to help ease the financial burdens of its customers in times of crisis.

Growth in operating expenses, excluding provisions for impairment and credit losses, was kept moderate at 8% as the Bank adjusted its expenditure priorities and supported pandemic-related expenses, such as supplemental costs for frontline employees supporting the Bank's operations during the quarantine period.

During this pandemic year, the Bank booked Php16.9 billion in provisions for credit losses, more than five times the year-ago level, as a pro-active approach in addressing potential delinquencies that may arise from the impact of the prolonged pandemic. Specifically, the Bank set aside loan loss reserves for severely impacted essential industries, such as real estate, transportation, wholesale and retail trade as an anticipatory measure to manage its risk exposures. As a result of the loan loss provisions, net income of the Bank stood at Php2.8 billion as of December 31, 2020, 72% lower against previous year.

As of end-December 2020, PNB's consolidated resources aggregated Php1.2 trillion, up by 8% from year-ago level. The Bank's Capital Adequacy Ratio of 15.14% and Common Equity Tier 1 Ratio of 14.47% remained well above the minimum regulatory requirement of 10%.

Operational Highlights

Shortly after the eruption of Taal Volcano in January, PNB started building its technology infrastructure as part of its emergency preparedness efforts. By the time the community quarantine took effect in March, the Bank's key businesses were well prepared to allow most of the employees to work from home. Even before the government ordered the quarantine, the Bank acted swiftly by setting up a COVID-19 Command Center to support businesses operating under the skeleton arrangement and work-from-home policy. To be able to service customers effectively, PNB provided support for its employees by implementing initiatives that make their physical safety and overall well-being a priority.

The rapidly changing business environment has pushed the Bank to immediately build its presence in the digital space. In 2020, PNB saw a double-digit growth in its digital banking enrollment.



PNB reinforced its brand promise of being a dependable financial partner with the new tagline, "Masasandalan. Kahit Saan. Kahit Kailan" with the objective of having more Filipinos experience seamless banking anytime and anywhere. The Bank also deployed its Bank On Wheels in densely populated areas of the country. This cash-dispensing facility allowed customers in locked down areas to withdraw much-needed cash at a time when movement was extremely limited. Moreover, as more businesses and corporations look for payments and cash management solutions, PNB continued to improve the PNB C@shnet Plus, its corporate internet banking system which offers a wide array of cash management solutions such as account management, collections, payroll, disbursement and trade.

In addition, the Bank launched the PNB Ze-Lo Mastercard, a credit card with zero annual fee, zero overlimit fee, and low finance charge. This product aims to capture customers who want a basic credit card that offers flexibility for their daily finances.



To keep the cards relevant to customers, PNB partnered with online merchants that are essential to cardholders such as food delivery, groceries, medical consultation, shopping platform, and pet supplies. PNB also introduced 0% transaction conversion for groceries, hospitals, and medicines during the enhanced community quarantine (ECQ). New major partnerships with Shopee, FoodPanda, and Caltex were also made to further boost card usage and billings.



True to the *Bayanihan* spirit, the Bank extended debt relief to Own A Philippine Home Loan (OPHL) clients and waived charges on remittances made to charitable institutions. PNB also launched a "Libre Padala" promo that allowed overseas Filipino workers (OFWs) to transfer funds credited to individual PNB deposit accounts in the Philippines through various remittance channels free of charge from April to May 2020. More than 100,000 OFWs availed of this special treat from PNB.

Finally, our investment arm, PNB Capital and Investment Corporation, facilitated the initial public offering (IPO) of Merry Mart Consumer Corporation – the country's first IPO to be listed at the height of the pandemic. PNB Capital was the Sole Issue Manager, Lead Underwriter, and Sole Bookrunner for the Php1.6-billion IPO which was twice over-subscribed.

The Bank's collective response to the pandemic situation was recognized by The Asian Banker. In 2020, PNB was awarded "Best Managed Bank During COVID-19" and "Best CEO Response To COVID-19" in the Philippines during its annual Leadership Achievement Awards. A proud moment made possible by the collaboration of all Philnabankers.

In addition to this, PNB received three arrows during the 2019 ASEAN Corporate Governance Scorecard (ACGS) Recognition Day. The Bank was also cited by the ASEAN Capital Markets Forum (ACMF) as one of the recipients of the ASEAN Asset Class Award for obtaining a score of 97.5 points and above in the ACGS. The ACGS is a set of questions developed in accordance with the corporate governance principles of the Organization for Economic Co-operation and Development (OECD) as well as best corporate governance practices of major publicly listed companies in the ASEAN.

Finally, PNB became the first universal bank in the Philippines to be certified as gender-equal after receiving its Economic Dividends for Gender Equality (EDGE) Certification (first of three levels) on March 30, 2020, joining a global community of companies and organizations that are committed to workplace gender equality. EDGE is the leading global assessment methodology and business certification standard for gender equality.

Alongside the rest of the world, PNB faced unparalleled headwinds because of the pandemic. Yet despite of this, the Bank exemplified its promise to be "Masasandalan. Kahit Saan. Kahit Kailan." by giving the best possible service to its customers and stakeholders.



PMFTC Inc.

Overview

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

PMFTC manufactures 6 out of the top 10 brands available in the market today, led by *Marlboro*, the world's number one cigarette brand, and *Fortune*, one of the largest heritage homegrown brands in the Philippines.

In 2020, excise tax on cigarettes was increased in accordance to Republic Act No. 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, and an increase of 5 percent (5%) annually from January 2024 onwards.

PMFTC volume went down by 16.1% equivalent to 41.7 billion sticks, mainly reflecting market contraction, coupled with a decrease in PMFTC market share to 67.2%¹ which is down by 3.3 share points compared to last year, notably for the *Fortune* brand.¹

PMFTC employs around 3,800 employees and indirectly contracts around 13,100

tobacco farmers through its supplier, 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 is strongly committed to the development and growth of local communities. Its Corporate Social Responsibility program, called Embrace, partners with various governmental institutions, NGOs, and local stakeholders to support programs that are based on needs assessment and are aimed at contributing to the realization of the United Nations Sustainable Development Goals. The charitable giving, social contributions and community investments are focused on access to education, empowering women, economic opportunity, and especially disaster preparedness and relief efforts.

¹Based on PMFTC in-market sales and Nielsen Retail Trade Audit Share of Market (Dec'20)



Sales and Marketing

Marlboro's solid performance continued in 2020 as the #1 cigarette brand in the Philippines². To strengthen loyalty among Marlboro Legal Age Smokers (LAS, 18 years old and above), the Marlboro 100 Years campaign was introduced in August 2020. The campaign is a 100-day celebration of Marlboro's legendary history and flavor. This was supported with the release of a Limited Pack Edition and retailers through APPwards, PMFTC's digital retailer engagement platform. Marlboro closed the year with increased market share versus previous year.

Shortly after the national rollout of Philip Morris Red in November 2019, Philip Morris Menthol 100's was launched in February 2020 bringing premium equity and heritage to the mid-price segment. Philip Morris is the only cigarette brand in the Philippines that has Firmstick™ or the combination of Firm Filter® and Extra Tobacco. Philip Morris Menthol 100s has achieved one of the highest levels of market share to date for a new product in the category.

Digital Trade Engagement (DTE)

Starting the year with just 28,500 retailers on-board, the platform ended the year with 64,000 retailers enrolled. Even with the surge of new users, DTE was able to effectively engage retailers, with 86% weekly log-ins among enrolled retailers, and 83% of which completed the set business tasks. This was achieved by building up PMFTC's digital capabilities through DTE training for our business building teams, mapping out DTE-centric incentive mechanics, introducing the breakthrough Unique Pack Codes (UPC) program, and improving content and tasking for the retailers.

The UPC program was a successful shift to digitize the age-old Empty Pack Redemption offtake program through the use of digital (DTE & LAS microsites) and SMS channels. Within DTE, the UPC program has provided strong retail support for PMFTC brands and reinforced digital engagement behavior, with up to millions of Marlboro and Philip Morris UPCs submitted.

Building on the momentum of UPC, limited-time promotions such as raffles and additional pack points were launched to serve as additional incentives for retailer enrollment acceleration. These efforts proved effective in driving daily submissions and participation.



Another key contributor to the success of DTE was a robust content mix to support both portfolio and retailer needs, balancing New Product Launch (NPL) materials and tasks, tactical initiatives to boost established brands and, most importantly, providing assistance to retailers in challenging times.

DTE Content Highlights

- **Display Challenges:** Highly cost efficient, visibility boost initiatives



- **Retailer Support:** Support for retailers located in areas affected by natural calamities



- **Inspirational Testimonials:** Sharing retailer stories to inspire more DTE participation



The value and relevance that DTE has created thus far for retailers has translated into consistent growth for overall platform satisfaction. Satisfaction surveys were conducted regularly throughout the year, with every wave showing increasingly positive ratings across the board. DTE is strengthening PMFTC's position as the retailers' most valued partner. Through the evolution of DTE in the Philippines, PMFTC has created a completely new way of engaging the retail universe, being able to build the business beyond physical visits. DTE also frees up resources and drives efficiencies, allowing focus on other aspects of the business.

As trade digitalization remains a key proponent for the route-to-market evolution, 2021 will not only see the continuous expansion of DTE's footprint, but also the continuous enhancement in its user relevance, and overall value in delivering on PMFTC's objectives.

Electronic Order Go Live – Enabling Trade Transformation

After months of preparation and several pivots due to the pandemic, the Electronic



Order (e-Order) expansion project was launched in Luzon and Mindanao covering a total of 4,426 wholesalers. The rollout was supported by a virtual launch event and comprehensive training among wholesale executives to ensure a seamless transition of customers to the new ordering system, and finally, the roll out of a customer service system via the e-Order hotline #PM8888 to ensure further assistance is available on demand.

The deployment of e-Order allowed the wholesale executives to focus on business building activities and to activate our wholesalers to cover more indirectly served retailers.

Year 2021 will be the completion of the rollout to the Visayas region which will bring up the enrollment to 5,400 wholesalers. Furthermore, we will focus on further improving the e-Order app functionalities and expand our DTE footprint to wholesalers to develop user engagement and impact business volume / value growth.

Operations PMFTC Operations continue its Integrated



Operating System (IOS) journey in 2020, upholding the objective of standardizing processes and eliminating production losses. In August 2020, another milestone was achieved by the Philippine team as the model line – the pilot machine from optimization initiatives were iterated and evaluated, and was able to achieve its set targets paving the way for Batangas factory to pass Phase 0 and become a Phase 1 site. Phase 0, as the initial phase of the IOS journey, was focused on leadership preparation and capability building. Now as a Phase 1 site, the leadership team are enabled to reapply and sustain all the learnings and improvement projects from the model line to the rest of the organization. Keeping up the momentum and as planned, the Marikina factory has also embarked on its Phase 0 journey in October 2020.

Due to the challenges of the 2020 pandemic, major alterations were made on Operations' ways of working, with the



health and safety of its employees in mind. Changes were made to ensure compliance to work restrictions are put in place and properly executed. Due to these efforts, the PMFTC plant in Marikina was cited as the model workplace during the global pandemic by the Department of Labor and Employment (DOLE), following the factory visit of Labor Secretary Silvestre Bello III last September 2020.



Because of the team's focus and resilience amidst the situation, this year's performance finished strong and exceeded targets across Cost, Quality and Sustainability metrics.



Illicit Trade
Illicit activity has been rampant especially amidst the pandemic. There has been an increased opportunity for illicit traders to fill up the supply during community quarantine restrictions which resulted to the stoppage of domestic cigarette manufacturing operations, and affected the distribution of tax-paid cigarettes. Further, the legislated excise tax increase in January 2020 from Php 35.00 per pack to Php 45.00 per pack, coupled with rising unemployment that negatively impacted income, made illicit cigarettes more attractive as cheaper alternatives compared to tax-paid low-priced brands.

Despite these, 2020 was a very productive year in the fight against illicit trade. Through the combined efforts of various government enforcement agencies such as the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), National Bureau of Investigation (NBI) and the Philippine National Police (PNP), there was an 50% increase in the number of enforcements to 171 in 2020 versus 114 in 2019, tripling the seizure of cigarette making machines to 150 in 2020 from 50 in 2019, and a 209% rise in the number of cigarettes sticks seized from 277 million sticks in 2019 to 856 million sticks in 2020. The huge difference in the seizure of finished goods versus past year was partly

due to a port monitoring program jointly conducted by BOC and private stakeholders. Also, the year saw the shutdown of 9 illegal cigarette manufacturing facilities and 1 printing facility.

Illicit trade incidence was comprised largely of cheap contraband brands such as Two Moon, Bravo, Fort, Astro and D&M, etc. at 80%, while the remaining 20% were counterfeit versions of JTI and PMI/PMFTC brands. Mindanao accounts for the highest incidence of illicit packs (14.0%), with Luzon (3.6%) and Visayas (1.0%) as distant second and third respectively.

Stricter laws are needed to prevent illicit trade. With the proliferation of unregistered cigarette manufacturing facilities, the Philippine government passed legislation to increase the penalties on unlawful possession of articles subject to excise tax such as tobacco products, with pending legislations aiming to increase the penalties for the smuggling of agricultural products, including raw and manufactured tobacco. Some local government units have also passed ordinances penalizing retailers involved in the trade of illicit cigarettes. Enforcement teams of the BIR and BOC continue their close coordination in the fight against illicit trade.

#MAKEHISTORY



People and Culture

The year 2020 provided an immense opportunity for PMFTC to show how resilient and agile we are as an organization. With the pandemic changing the business and overall working landscape, the organization leveraged on the strengths of our people not only to embrace change but also to re-focus and re-energize our Transformation.

Our strategic focus for the year remained the same but with two emerging key elements – Human Connection supported by a strong Digital Execution. These were evident in all our initiatives and programs.

We launched our new employer branding – Make History – which vividly articulates how our own transformation journey can be just as historic and appealing for anyone who wants to make a change in the world. This cements our goal towards PMFTC being an Employer of Choice for our external talent attraction. As part of our employer equity efforts, we have implemented hi-touch and hi-tech experiential digital touchpoints such as partnering with digitally enabled organizations in the space of academe, civic & business associations, and leveraging on social media to increase awareness of PMFTC within the local talent market.

We continued with the INKOMPASS Internship Program – bringing in a total of 25 interns from the top universities in

the Philippines – as part of our vision of building leaders of the future. To further strengthen our employees’ capabilities, we fostered a stronger learning culture. The focus was to deliver experiential learning to all employees. And during the pandemic, we leveraged on digital channels to continue pursuing this goal. The Digital Campus, a learning journey to build the digital acumen of employees was also launched this year. We continued the LEARNX sessions facilitated by external subject-matter experts to enrich the knowledge of employees on key emerging trends.

In preparation for the arrival of IQOS in the country, the IQOS Digital Roadshow was launched. The learning journey aims not only to engage the minds of our employees with knowledge and skills around IQOS, but also their hearts-- to have an army of advocates who are emotionally thrilled to talk about IQOS.



In the last quarter of 2020, PMFTC launched the RISE Program – an 18-month talent acceleration program to bring in fresh external talents to the organization, complementing our already

solid internal talent landscape. RISE will jumpstart the careers of future Commercial leaders of PMFTC by assigning them on key Commercial projects.



With the lack of face-to-face conversations, we strengthened our communication approach to our employees by launching Yammer - an always-on, omni-channel internal digital platform to engage our employees. By creating conversations on topics that matter, we were able to rally our employees towards our shared goals and beliefs, and this digital platform helped us to stay connected in spite of the distance.

Ending 2020 on a high note, PMFTC was certified, on its second year in a row, as a TOP Employer in the Philippines by the TOP Employer Institute which is the global authority on recognizing excellence in human resource practices.

COVID and Typhoon Response

As a testament to our commitment to support our employees during the pandemic, PMFTC launched several initiatives to provide additional support to our employees and their families. We have provided care and hygiene packs, hardship assistance for employee front-liners during the lockdown, free flu vaccinations, telemedicine assistance and also conducted rapid tests every two weeks in all company sites. We have also launched the Pre-loved Computer Donation Program wherein old company laptops were distributed to employees via a lottery system.

In response to the massive devastation and personal loss caused by typhoons “Rolly” and “Ulysses”, PMFTC launched two voluntary employee donation drives, namely: “Bangon Bicolandia” and “Ahon Luzon”. We leveraged our exceptional team spirit and the Filipino Bayanihan spirit to provide support to those affected. Collectively, we were able to distribute almost Php2 million pesos to our affected employees.



Inclusion and Diversity

The challenges of 2020 provided PMFTC with opportunities to further invest in achieving an inclusive environment and fostering a sense of belonging. In addition to medical and economic support provided during the pandemic, the company delivered well-being programs around mental health, resilience, inclusive leadership, and work-life balance. PMFTC also enlisted a new provider for our 24/7 Employee Assistance Program, with enhanced benefits and expanded coverage to support the employees’ and their family members’ emotional and mental well-being. One significant milestone was the fact that for the third year this 2020, the company retained its Equal Salary Certification, in recognition of its sustainable policies and practices to compensate male and female employees equally for equal work. Lastly,

PMFTC was the first market in PMI global to pilot an Inclusion & Diversity Index Survey. Results of this survey will be made available in 2021 and will provide the company with insights to develop even more relevant and highly targeted programs and interventions to create a more inclusive work environment where we embrace our differences.

Tanduay Distillers, Inc.



The spirits industry, already reeling from the impact of continuously rising excise taxes, faced strong headwinds in 2020 brought about by the COVID-19 pandemic. Sales and consumption of alcoholic drinks were restricted to deter social interactions that may cause the spread of the virus. Local liquor bans imposed starting in March affected 92% of Tanduay Distillers, Inc.'s (TDI) sales areas. The ban was however gradually lifted, except in high-risk areas such as Metro Manila and its neighboring localities. In Visayas and Mindanao (VisMin), only key cities like Cebu, Davao, General Santos and Iloilo were under liquor ban for a longer period.



As a result of the hard lockdown, TDI's liquor sales volume in April dipped to a low of just 14% of the pre-pandemic monthly average volume. Sales of bioethanol also declined by 70% as restrictions on travel and transport dampened demand from fuel manufacturers.

The lockdown was gradually eased starting the middle of the year, which allowed the gradual reopening of the local economy. By first semester's end, liquor bans were only in place in 12% of TDI's sales territory. The hospitality sector however continued to be closed in most localities despite the easing of the quarantine restrictions resulting in a big drop in on-trade sales. Conversely, off-trade sales in supermarkets, convenience stores and neighborhood retailers soared as drinking occasions moved into homes and neighborhoods.

Riding on its distribution strength in the off-trade and the milder impact of the pandemic in the VisMin area, TDI's liquor volumes recovered strongly in the second half, with sales exceeding that of the first half by 60% to end the year with an increase of 16% against 2019 volumes. Sales of bioethanol also recovered in the second semester but not enough to attain pre-pandemic volumes thus ending the year with a 29% volume drop compared to the previous year. This was offset,

however, by the 198% increase in sales of denatured alcohol as the pandemic boosted the demand for sanitizers and disinfectants.

On the supply side, TDI's adequate pre-pandemic inventory levels cushioned the impact of the stoppage in plant operations during the hard lockdown in April until mid-May. In terms of capacity utilization, production efficiency of TDI's bottling plants improved from 47% to 78%, which enabled faster reaction to the uptick in demand when restrictions were lifted in the second half of the year.

Consolidated revenues went up to Php25.0 billion or 30% higher than the previous year due to the 33% upswing in liquor revenues. On top of the 16% increase in volume, selling prices of liquor were increased by 15% primarily to cover the increase in excise tax. Consolidated cost of sales grew in-step with the increase in volume but at a slightly higher rate than revenues at 33% mainly due to higher excise tax. This was offset by lower costs of alcohol and packaging materials. Gross profit improved by 14% to Php3.7 billion mainly due to the impact of higher liquor profits.

Operating expenses decreased by Php428 million or 19% mainly from lower advertising expenses as pandemic restrictions diminished traditional media outlets and disallowed below-the-line activities like promotional events and market saturation drives. Other expenses however jumped to Php343 million due to higher loss provisioning, interest expense and foreign exchange losses.



Consolidated net income after tax amounted to Php1.12 billion or a 65% improvement from the Php676 million posted in 2019.

With limited mobility and social interaction under the pandemic, at-home consumption of alcoholic beverages became the next best option for consumers. Adapting to their evolving needs, TDI launched Tanduay Cocktails via its new e-commerce website,



shots.ph. Tanduay Cocktails is a 20-proof white rum spirit premixed with fruit flavors. It has three variants – piña colada, strawberry daiquiri, green margarita – and comes in 3-liter containers with an easy-press sprout.



Answering the need for more sanitizing products, Tanduay also produced its own rubbing alcohol brand, Protecc. Protecc hand sanitizer and antiseptic contain 80% alcohol and come in four sizes. TDI also aims to sell these in the foreign market.

TDI's premium brands continue winning in international competitions. Tanduay Asian Rum Gold, Tanduay Asian Rum Silver and Tanduay Double Rum all won gold medals at the Las Vegas Global Wine & Spirit Awards and at the Ultimate Spirits Awards in the USA. Tanduay Double Rum also won a gold medal in China's G100 International Wine and Spirits Awards.



TDI continued its thrust to becoming a global brand by adding more distribution points in the USA and Europe.

While the Philippine economy appears to be on the path to recovery as more businesses open up with the gradual lifting of restrictions, it still faces a lot of downside risks such as possible prolonged wave of the pandemic and slower recovery of the global economy. Amid this difficult environment, TDI will continue to look for opportunities to strengthen its operational and financial capability in order to attain its vision of being the best in its business.

Corporate Governance Report

The year 2020 has taught us that the success of a company relies on the capability and knowledge of the men and women behind it who are ready to face its battles head on. All industries in the country felt the negative effects of the COVID-19 pandemic. Several companies shut down, while others remain struggling. LT Group, Inc. otherwise known as LTG, believes that this is the perfect opportunity to show how good corporate governance can help a company survive and thrive.

To ensure the continued achievement of the Company, it made sure to work side by side with men and women who are dedicated, competent and willing to serve as members of its Board of Directors and Management, and lead the Company to its maximum potential.

BOARD COMPOSITION

The Company acknowledges the strength in having both men and women as part of its management, valuing the diversity they bring in terms of understanding and ideas in problem-solving and exploring possibilities that can bring growth to the Company.

As such, for the past years, the Company has championed a diverse pool of talent to form part of its Board of Directors and Management.

The Company's Board of Directors is composed of eleven (11) members, five (5) of whom are women and the rest are men. Aside from this, 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, the Board is further composed of Non-Executive Directors (NED) (73%) and Executive Directors (ED) (27%), four (4) of whom serve as Independent Directors (ID).

Moreover, these 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.

Composing its Board of Directors are the following:



Dr. Lucio C. Tan, 86, 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., Mabuhay Maritime Express Transport, Inc., **MacroAsia Corporation**, Philippine Airlines, Inc., PMFTC Inc., Progressive Farms, Inc., **PAL Holdings, Inc.**, Tanduvay Distillers, Inc., Tanduvay 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: 94%: 16 of 17 Board Meetings
Date of First Appointment: July 2, 1999
No. of Years on the Board: 21 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Carmen K. Tan, 80, Vice Chairman
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., **MacroAsia Corporation**, **PAL Holdings, Inc.**, **Philippine National Bank**, PMFTC Inc., Progressive Farms, Inc., Tanduvay 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: 94%: 16 of 17 Board Meetings
Date of First Appointment: May 5, 2010; October 23, 2020 as Vice Chairman
No. of Years on the Board: 10 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Harry C. Tan, 75, Director
Mr. Tan is a Director of Eton Properties Philippines, Inc., and Pan-Asia Securities Corp.; 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 Tanduvay 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: 100%: 17 of 17 Board Meetings
Date of First Appointment: May 28, 2008
No. of Years on the Board: 12 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Michael G. Tan, 55, President and COO
Mr. Tan is a Director, President and Chief Operating Officer of Asia Brewery, Inc.; Director of Tangent Holdings Corp., **MacroAsia Corporation**, **Philippine National Bank**, Eton Properties Philippines, Inc., PMFTC Inc., Tanduvay Distillers, Inc., **Victorias Milling Company, Inc.**, Maranaw Hotel (Century Park Hotel) and Pan-Asia Securities Corp. He graduated top of his class at the University of British Columbia in Canada with a Bachelor of Science degree in Applied Science in Engineering, major in Structural Engineering. He is a Vice President of the Federation of Filipino Chinese Chambers of Commerce & Industry, Inc.

Board Attendance: 100%: 17 of 17 Board Meetings
Date of First Appointment: February 21, 2003
No. of Years on the Board: 17 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Lucio C. Tan III, 28, Director
Mr. Tan is the President and Chief Operating Officer of Tanduvay Distillers, Inc. Prior to this, he was working as a software engineer at Lyft, Inc. in San Francisco, California, USA. He has a strong background in engineering and technology. He graduated with a Bachelor's Degree in Electrical Engineering and a Master's Degree in Computer Science from Stanford University. While in Stanford, he received the Frederick E. Terman Award, which is given to the top 5% of engineering undergraduates. He is also a Director of Tanduvay Distillers, Inc., Philippine Airlines, Inc., **MacroAsia Corporation**, Lufthansa Technik Philippines and **Victorias Milling Company, Inc.**

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



Vivienne K. Tan, 53, Director
Ms. Tan is a Director of **Philippine National Bank**, Member of the Board of Trustees of University of the East and University of the East Ramon Magsaysay Memorial Medical Center, Founding Chairperson of Entrepreneurs School of Asia and Founding Trustee of Philippine Center for Entrepreneurship (Go Negosyo).

Board Attendance: 100%: 17 of 17 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 2 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Juanita T. Tan Lee, 78, Director and Treasurer
Ms. Tan Lee is a Director of Asia Brewery, Inc., Eton Properties Philippines, Inc., and Tanduvay 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, 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%: 17 of 17 Board Meetings
Date of First Appointment: May 2, 2012
No. of Years on the Board: 8 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Johnip G. Cua, 64, Independent Director
Mr. Cua is a Former President of Procter & Gamble Philippines, Inc., currently the Chairman of the Board of the P&G 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., Tanduvay 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: 100%: 17 of 17 Board Meetings
Date of First Appointment: May 8, 2018
No. of Years on the Board: 3 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Mary G. Ng, 68, Independent Director.
Ms. Ng is the Chief Executive Officer of H&E Group of Companies; Honorary President of the Packaging Institute of the Philippines, the Philippine Plastics Industry Association, Inc., and the Association of Volunteer Fire Chiefs and Firefighters of the Philippines; First woman Chairman of the ASEAN Federation of Plastic Industries (AFPI); Executive Vice President of Federation of Filipino-Chinese Chamber of Commerce and Industries; Tripartite Board member of the Department of Labor and Employment; Board member of Technical Educational and Skills Development Authority (TESDA); Vice President of the Philippine Piak O Eng Chamber of Commerce and Philippine Piak O Eng Uy's Association; and Director of Philippine Dongshi Townmate Association, Inc.

Board Attendance: 94%: 16 of 17 Board Meetings
Date of First Appointment: May 7, 2019
No. of Years on the Board: 2 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Wilfrido E. Sanchez, 84, Independent Director
Mr. Sanchez is the Tax Counsel of Quison 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, **EEL Corporation**, Grepalife Asset Management Corporation, Grepalife

Fixed Income Fund Corporation, **House of Investments, Inc.**, JVR Foundation, Inc., Kawasaki Motor Corporation, Magellan Capital Holdings Corporation, Omica 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 Tanduvay 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: 100%: 17 of 17 Board Meetings
Date of First Appointment: July 31, 2012
No. of Years on the Board: 8 Years
Other Information: No conflict of interest transactions in the past one (1) year.



Florencia G. Tarriela, 74, Independent Director
Ms. Tarriela is Chairman and Independent Director of **Philippine National Bank**, PNB Capital and Investment Corporation, PNB Mizuho Leasing and Finance Corporation, and PNB Mizuho 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; former Undersecretary of Finance, and a former 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, a columnist for "Business Options" of the Manila Bulletin and "FINEX Folio" of BusinessWorld.

Board Attendance: 100%: 17 of 17 Board Meetings
Date of First Appointment: August 9, 2012
No. of Years on the Board: 8 Years
Other Information: No conflict of interest transactions in the past one (1) year.

BOARD RESPONSIBILITIES

The By-Laws of the Company, in its pursuit of good corporate governance, requires its Board of Directors to regularly hold meetings every second Tuesday of the month. All companies under the conglomerate are required to be represented by their respective Chief Financial Officers (CFOs) or Chief Operating Officers (COOs) who shall report on the operational results of their respective divisions and likewise brief the Board on other developments in the market place, including their plans and initiatives for the year. For quarterly meetings, however, the CFOs are likewise joined by the Presidents/ Chief Executive Officer (CEO) or COOs of the subsidiaries.

In 2020, despite the negative effects and restrictions caused by the COVID-19 pandemic, its Board of Directors still managed to conduct 17 meetings to ensure that the Company and its subsidiaries will be appropriately handled and all possible issues resolved. These meetings were religiously attended by its members, as shown in the table below:

Board	Name	Date of Election	No. of Meetings Held during the year (2020)	No. of Meetings Attended	%
Chairman	Dr. Lucio C. Tan	06/30/2020	17	16	94
Member	Carmen K. Tan	06/30/2020	17	16	94
Member	Harry C. Tan	06/30/2020	17	17	100
Member	Michael G. Tan	06/30/2020	17	17	100
Member	Lucio C. Tan III	06/30/2020	17	17	100
Member	Vivienne K. Tan	06/30/2020	17	17	100
Member	Juanita T. Tan Lee	06/30/2020	17	17	100
Independent	Johnip G. Cua	06/30/2020	17	17	100
Independent	Mary G. Ng	06/30/2020	17	16	94
Independent	Wilfrido E. Sanchez	06/30/2020	17	17	100
Independent	Florencia G. Tarriela	06/30/2020	17	17	100

BOARD COMMITTEES

The Company is composed of the (i) Audit and Risk Management Committee, (ii) Executive Committee, (iii) Nomination and Compensation Committee, and (iv) Corporate Governance Committee, each created to

oversee the proper operations of the Company, and its subsidiaries, as well conduct the necessary check and balances to ensure that transactions are entered into with fairness and transparency.

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

AUDIT AND RISK MANAGEMENT COMMITTEE (ARMC)

The ARMC is composed of five (5) Directors, namely, Mr. Johnip G. Cua as Chairman, Ms. Juanita T. Tan Lee, Ms. Florencia G. Tarriela, Mr. Wilfrido E. Sanchez and Ms. Mary G. Ng. Out of the 5 directors, four (4) are Independent Directors, including the Chairman.

Its Chairman, Mr. Cua, has rendered his service to the Company previously as a member of its Board of Advisors since August 2014 and thereafter a director thereof since May 2018. He likewise serves as Director/Officer of other companies within and outside the Company.

Based on its Charter, the ARMC is tasked to assist the Board in its oversight functions. As such, the ARMC, through the Internal and External Auditors, 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 2020, the Committee conducted eight (8) 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	06/30/2020	8	8	100	3
Member (ID)	Wilfrido E. Sanchez	06/30/2020	8	8	100	7
Member (ID)	Florencia G. Tarriela	06/30/2020	8	8	100	7
Member (ID)	Mary G. Ng	06/30/2020	8	7	87.5	1
Member (ED)	Juanita T. Tan Lee	06/30/2020	8	7	87.5	7

For the calendar year 2020, the Committee:

- Reviewed and approved the Audit Report and Audited Financial Statements as of and for the period ended December 31, 2019, as examined and presented by Scyp Gorres Velayo & Co. ("SGV & Co.") and endorsed them to the Board of Directors for approval.

- Approved the recommendation to select and reappoint the auditing firm of SGV & Co. as the Company’s External Auditor for the year 2020 and endorsed the same to the Board of Directors for approval.

- 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.

- Approved the Internal Audit Reports as presented by the Internal Auditors.

- Reviewed the scope of work and fees of the external auditors, assessed their independence and effectiveness, and endorsed them to the Board of Directors.

EXECUTIVE COMMITTEE (EXCOM)

The EXCOM, tasked to ensure that the Board manages the businesses and affairs of the Company properly, is composed of seven (7) directors namely, Dr. Lucio C. Tan as Chairman and Mr. Harry C. Tan, Mr. Michael G. Tan, Ms. Vivienne K. Tan, Ms. Juanita T. Tan Lee, Mr. Johnip G. Cua and Ms. Florencia G. Tarriela as members. Their authority, however, is limited only to functions which are not expressly reserved to be exercised by the Board of Directors under the laws of the Philippines, the corporate By-Laws and the Company’s Revised Corporate Governance Manual.

For the year 2020, in accordance with its Charter requiring the EXCOM to hold meetings only on an as-needed basis, no EXCOM meetings were conducted since no urgent matters arose requiring its approval.

NOMINATION AND COMPENSATION COMMITTEE (NCC)

The NCC is composed of five (5) directors namely, Dr. Lucio C. Tan as Chairman and Mr. Harry C. Tan, Mr. Michael G. Tan, Ms. Juanita T. Tan Lee and Mr. Wilfrido E. Sanchez as members.

The NCC conducts a meeting at least once a year to ensure that a formal and transparent Board nomination process is done in the selection, compensation, monitoring and, when necessary, replacement of key executives as well as overseeing the succession planning of the Company.

On February 14, 2020, the Committee convened and passed upon the qualifications of the following candidates who are nominated to hold key positions in the Company:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ED)	Dr. Lucio C. Tan	06/30/2020	1	1	100	6 years
Member (NED)	Harry C. Tan	06/30/2020	1	1	100	6 years
Member (ED)	Michael G. Tan	06/30/2020	1	1	100	6 years
Member (ED)	Juanita T. Tan Lee	06/30/2020	1	1	100	8 years
Member (ID)	Wilfrido E. Sanchez	06/30/2020	1	1	100	6 years

CORPORATE GOVERNANCE COMMITTEE (CGC)

The CGC is composed of five (5) directors with Ms. Florencia G. Tarriela as its Chairman and Mr. Michael G. Tan, Ms. Juanita T. Tan Lee, Mr. Johnip G. Cua and Mr. Wilfrido E. Sanchez as its members.

This Committee is tasked to ensure that the Company is compliant with the various recommendations of the SEC for good corporate governance, among others. In 2020, the CGC met twice during the year to discuss the Company’s Integrated Annual Corporate Governance Report (I-ACGR) and its Sustainability Report, as required by the Securities and Exchange Commission.

Moreover, through the effective leadership of the Committee, the Company was able to conduct a successful Group-wide Corporate Governance Webinar last October 20, 2020 with the firm of SGV & Co. as the service provider. This webinar was attended by the different directors, officers and employees of the whole Group.

Likewise, in keeping with its duty to oversee the periodic performance evaluation of the Board, its committees and the executive management, among others, the Company likewise conducted a performance evaluation last July 19, 2020 to make sure that the Company’s Directors are capable of fulfilling and have been adequately carrying out their duties and responsibilities.

The table below shows the attendance of the members of the CGC during the 2020 meetings:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee*
Chairman (ID)	Florencia G. Tarriela	06/30/2020	2	2	100	7 years
Member (ED)	Michael G. Tan	06/30/2020	2	2	100	7 years
Member (ED)	Juanita T, Tan Lee	06/30/2020	2	1	50	7 years
Member (ID)	Johnip G. Cua	06/30/2020	2	2	100	3 years
Member (ID)	Wilfrido E. Sanchez	06/30/2020	2	2	100	7 years

MANAGEMENT

In 2020, despite the significant negative effects of the COVID-19 pandemic, the Company proved its resilience by keeping itself afloat and thus retaining the trust of its stakeholders and stockholders. This was made possible by the able and experienced leadership of its Chairman and CEO, Dr. Lucio C. Tan, and its President and COO, Mr. Michael G. Tan.

The Chairman/CEO and the President/COO closely coordinated with its directors and officers to be able to efficiently and effectively deal with the highly critical and sensitive issues.

During the Annual Stockholders’ meeting (ASM) held last June 30, 2020, all 11 Directors attended, as shown in the table below:

Name of the Director	Present	Absent
Dr. Lucio C. Tan	✓	
Carmen K. Tan	✓	
Harry C. Tan	✓	
Michael G. Tan	✓	
Lucio C. Tan III	✓	
Vivienne K. Tan	✓	
Juanita T. Tan Lee	✓	
Johnip G. Cua	✓	
Mary G. Ng	✓	
Wilfrido E. Sanchez	✓	
Florencia G. Tarriela	✓	

TRAINING OF DIRECTORS

The SEC Memorandum Circular No. 20, series of 2013 requires that all officers and directors of various companies annually attend a seminar on Corporate Governance to be conducted by the different SEC-accredited institutions and keep themselves up-to-date with the current trends and necessities of being globally competitive.

On October 20, 2020, the Company conducted a Group-wide Corporate Governance Webinar for all companies under the Lucio Tan Group with SGV & Co. as its service provider. The webinar 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	Juanita T. Tan Lee
Carmen K. Tan	Johnip G. Cua
Harry C. Tan	Mary G. Ng
Michael G. Tan	Wilfrido E. Sanchez
Lucio C. Tan III	Florencia G. Tarriela
Vivienne K. Tan	

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

DISCLOSURE AND TRANSPARENCY
UNSTRUCTURED DISCLOSURES

In 2020, the Company made the following disclosures to the SEC and the Philippine Stock Exchange (PSE), which were subsequently uploaded in its website for proper and efficient dissemination to its Stockholders:

Date of Report	Subject Matter Disclosed
January 20, 2020	Change in Shareholdings of Directors and Principal Officers
February 24, 2020	Clarification of News Report entitled “MacroAsia to tap LT firms to support Sanglely financing”
March 11, 2020	Approval of the Corporation’s Buy Back Program
March 16, 2020	Impact of COVID-19 to the Corporation’s business operations and the actions to mitigate such risks.
March 19, 2020	Press Release: “LT Group Supports Fight vs Covid-19”
March 19, 2020	Press Release: “LTG Posts Record Profits With 2019 Attributable Net Income at Php23.12 Billion, 43% Higher than 2018”
May 15, 2020	Press Release: “LTG Reports First Quarter 2020 Attributable Net Income of Php6.21 Billion, 41% Higher than First Quarter 2019”
June 25, 2020	Change in Shareholdings of Directors and Principal Officers
June 30, 2020	Press Release: “LT Group: Guarded Outlook for 2020 due to COVID-19”
June 30, 2020	Amendment of By-Laws
July 6, 2020	Change in Shareholdings of Directors and Principal Officers
July 7, 2020	Press Release: “NAIA Unsolicited Proposal”
August 11, 2020	Press Release: “LTG Reports First Half 2020 Attributable Net Income of Php10.03 Billion, 9% Higher than First Half 2019”
October 14, 2020	Press Release: “Asia Brewery and HEINEKEN Realign Partnership in the Philippines.”
October 23, 2020	Appointment of Ms. Carmen K. Tan as the Vice Chairman of the Company
November 13, 2020	Press Release: “LTG Reports First Nine Months 2020 Attributable Net Income of Php16.1 Billion, 9% Higher than 2019’s Php14.7 Billion”

DISCLOSURE AND TIMING

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

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

Moreover, as part of Company practice, the Minutes of the ASM are uploaded in the Company’s website within five (5) days from the date of the ASM and the Audited Financial Statements (SEC Form 17-A) for the year are submitted to the SEC and PSE at least two (2) months before the ASM is held.

The Company’s Audited Financial Statements for the year 2020 was submitted to the SEC and the PSE on March 25, 2021, at least 41 days before the ASM.

On the other hand, the interim and quarterly financial statements and results of operations are likewise submitted to the regulators within 45 days from the end of the financial period, as prescribed by the rules. Analysts’ briefings are likewise regularly conducted by the Company throughout the year to allow the public access to the periodic financial statements relative to the stock market. These briefings are attended to by members of the Management in order to explain and/or answer any questions raised by the analysts.

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	1,084,298,901	10.02%
Common	PCD Nominee Corporation	Filipino	929,126,405	8.59%

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 COMPENSATIONS TABLE: ANNUAL COMPENSATION

	Year	Salary	Bonus	Others*
Four (4) most highly compensated executive officers (see below)	2021 (Estimate)	8,844,000	737,000	3,113,000
(Estimate)	2020	8,040,000	670,000	2,830,000
	2019	7,890,000	670,000	2,795,000
All other officers and directors as a group unnamed	2021 (Estimate)	1,320,000	110,000	7,337,000
	2020	1,200,000	100,000	6,670,000
	2019	2,300,000	191,667	6,515,000

*Others – Includes per diem of directors

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

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

EXTERNAL AUDITOR

Since the year 2016, the Company has retained the services of the auditing firm SGV & Co., with Ms. Aileen Saringan as the partner-in-charge, as its External Auditor. As it is necessary for the Audit and Risk Management Committee to review the performance of the External Auditor, which will thereafter be for approval of the Board, SGV & Co. has consistently and efficiently provided the Company with 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:

For the year 2020, the Company incurred audit fees of PhP1,320,000.00, exclusive of out-of-pocket expenses, and there were no quarterly reviews of financial statements, same as last year.

DEALINGS IN SECURITIES

To ensure the continued public trust, 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 and officers:

Name of Director/ Officer	Direct shares As of end- 2019	Direct shares As of end- 2020	Indirect shares / Through (name of record owner)	% of Capital Stock
Dr. 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	146,100	1,151,996	NIL	0.01
Lucio C. Tan III	1,100	1,100	NIL	-
Vivienne K. Tan	1,000	1,000	NIL	-
Juanita T. Tan Lee	1,100	1,100	NIL	-
Johnip G. Cua	1,000	1,000	NIL	-
Mary G. Ng	1,000	1,000	NIL	-
Wilfrido E. Sanchez	1,000	1,000	NIL	-
Florencia G. Tarriela	1,000	1,000	NIL	-
Ma. Cecilia L. Pesayco	2,200	52,200	NIL	-
TOTAL	163,200	1,219,096	NIL	0.01

Trading Blackouts

Further to its Policy against Insider Trading, the Company likewise adopts and strictly implements the Blackout Period by making timely and constant reminders to its directors, officers, advisers, consultants and employees who may have knowledge on material facts regarding matters which may affect the Company, that they are prohibited from trading on the Company's shares within the Blackout Period. These reminders are made during Board meetings and sent through electronic mail.

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.

With the coordination of the Corporate Secretary and the cooperation of the Directors, no instance of any insider trading has been reported among the officers and all employees within the Group who have knowledge on any material information pertaining to the Company.

RIGHTS OF STOCKHOLDERS

The Company practices fair, transparent and immediate dissemination of information to the public specifically for the purpose of presenting itself to the world as a conglomerate which respects the rights of its existing and/or potential stockholders and stakeholders. This will, in effect, encourage its Stockholders to participate in its business endeavors within and outside the ASM. Among the rights granted to the Stockholders 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 the Company shall have (1) the right to call for a Special Stockholders' Meeting by submitting a written notice to the Corporate Secretary; and (2) the right to propose items in the agenda of the Stockholders' Meeting, provided the items are for legitimate business purposes. In either case, the written notice must be sent to the Office of the Corporate Secretary at least 90 days before the suggested date of the meeting.

In order to encourage the Stockholders to personally attend the Annual and Special Stockholders' Meeting, Notice thereto which includes sufficient and relevant information, are sent to them at least 30 days before the meeting/s, except in the year 2020, when the Securities and Exchange Commission allowed the publication of the Notices at least twenty-one (21) days prior to the scheduled date of the Annual Stockholders' Meeting. Likewise to be included in the said Notice is a reminder that should they be unavailable to personally attend the same, they may exercise their right to appoint a proxy, in which case, they are informed of the proper procedure on how to appoint one.

Right to Vote

As required by the Revised Corporation Code, the Company similarly 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

By submitting a written notice to the Corporate Secretary by a Stockholder who has not improperly used any information secured through any previous examination of records of the Company, said Stockholder shall have the right to inspect corporate books and records, including minutes of Board meetings, stock registries, annual reports and financial statements. 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 instances when: (1) an amendment to the Articles of Incorporation will change or restrict the rights of such stockholder or otherwise extend or shorten the term of corporate existence; (2) there is a sale, lease, exchange, transfer, mortgage, pledge, or other disposition of all or substantially all of the corporate property and assets; (3) there is a merger or consolidation; and (4) the Company decides to invest its funds in another corporation or business or any purpose other than its primary purpose.

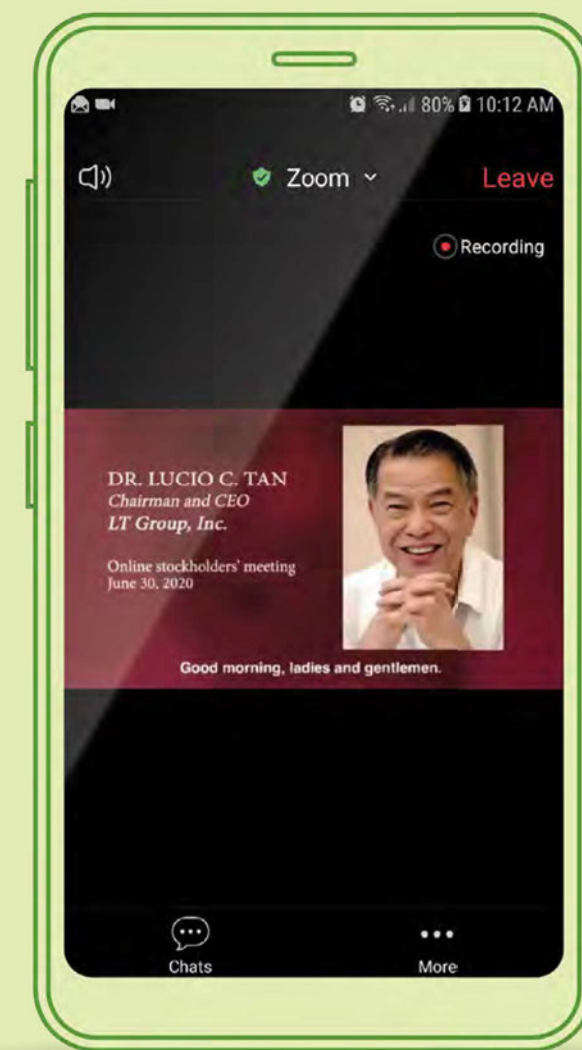
STOCKHOLDERS RELATIONS

The Company holds in highest regard the confidence its stockholders, employees, customers and trade partners has bestowed upon it. Thus, it makes certain that all decisions and transactions made by either parties are done with fairness and integrity.

STOCKHOLDERS' MEETING AND VOTING PROCEDURES

Recognizing the restricted movement and temporary business and work suspension caused by the COVID-19 pandemic, the Securities and Exchange Commission issued a Notice last April 20, 2020 allowing companies to use an alternative mode of sending the Notices to their Stockholders, which is through publication, both print and on-line, provided that the last day of publication is at least twenty-one (21) days prior to the scheduled Annual Stockholders' Meeting.

For the year 2020, while the Annual Stockholders' Meeting was pushed back to a month after its original date, which was from May 6, 2020 to June 30, 2020, the Management was still able to inform the Stockholders of the impending meeting through publication with the Philippine Daily Inquirer and The Philippine Star on June 4 and 5, 2020, respectively, or more than 25 days prior to the meeting set on June 30, 2020.



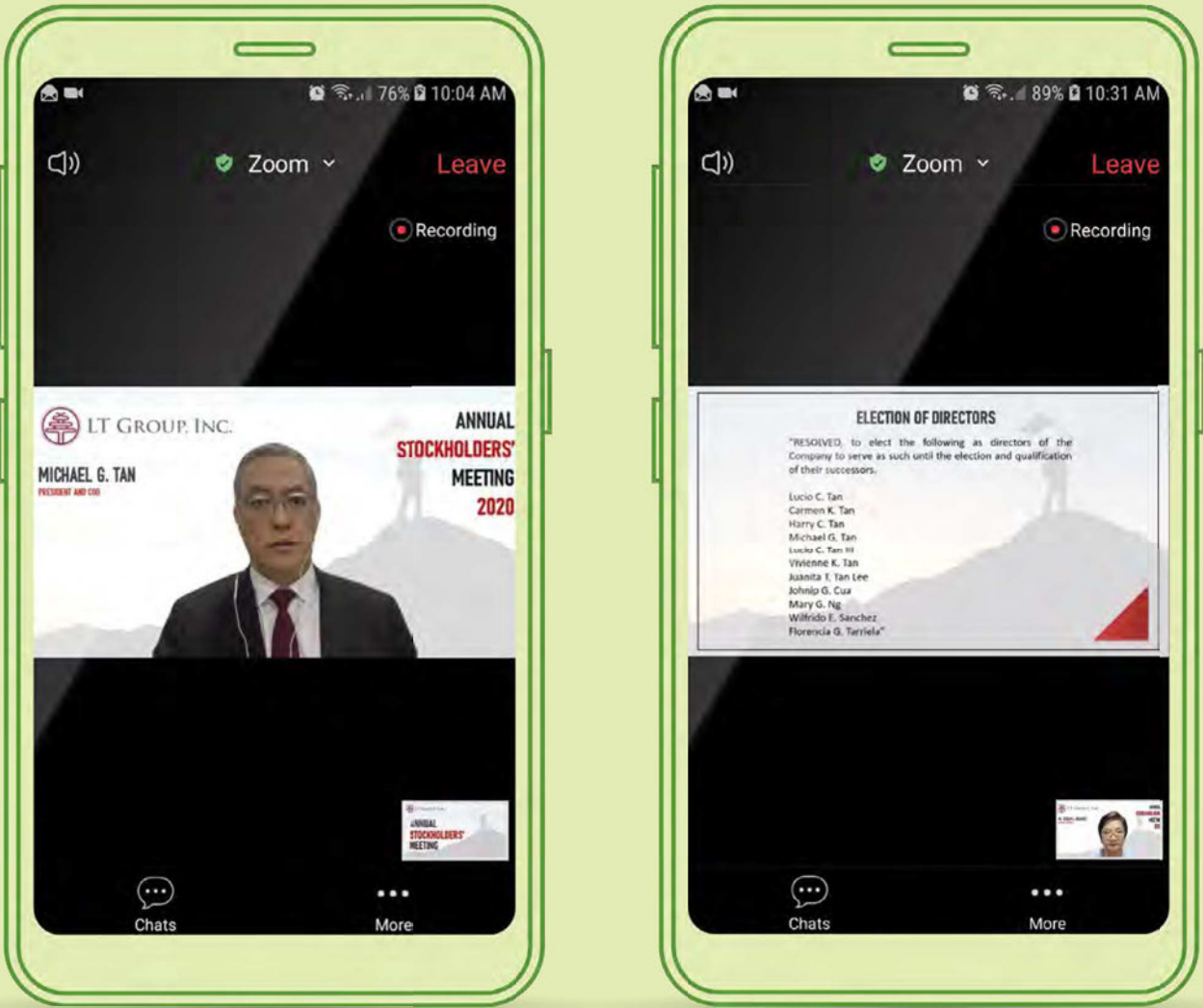
The published Notice included the Agenda for the meeting, the link where copies of the Definitive Information Statement and other necessary documents may be found, and a statement explaining that a Stockholder is allowed a Proxy should he/she be unavailable to personally attend the virtual meeting and the process for its application.

The procedures on how to register to the virtual meeting and how to vote were likewise included in the Notice.

DIVIDENDS

In 2020, the Company thrice declared and distributed the following regular/special cash dividends:

Date Approved	Dividends	Payment Date
May 22, 2020	Regular Cash Dividend of PhP0.15 per share and Special Cash Dividend of PhP0.28 per share to all its Stockholders as of June 8, 2020	June 17, 2020
August 14, 2020	Special cash dividend of 0.23 per share to all stockholders of record as of September 2, 2020	September 8, 2020
November 23, 2020	Special cash dividend of 0.15 per share to all stockholders of record as of December 9, 2020	December 14, 2020



Further to its pursuit of good corporate governance, the Company strictly implements its dividend policy which is to set the record date at least ten (10) days from declaration and distribute the Dividends within 30 days from the time it is approved and declared. For the three declarations as stated above, payments were made within thirty (30) days after it was approved by the Board and disclosed to the PSE.

EMPLOYEE RELATIONS

In the year 2020, the world was suddenly shut down. The negative effects of the COVID-19 pandemic shook companies of all industries to its core. Work was suspended and going out was limited to only getting basic necessities. Despite the difficulties it was facing, the Company knew that it was crucial to address and ensure the safety and protection of its employees.

To do so, the Company readily adjusted to the work-from-home scheme to ensure that its employees and their loved ones will be safe from contracting the deadly disease. Survival kits were likewise sent to their households and all celebrations were done through online applications. These practices, aside from the open lines of communications, grant of scholarship opportunities, and provision of wide health insurance to its employees, are necessary to boost employee morale and to make them feel that the Company will always be there to support them.

To this day, it is safe to say that the Company has retained its great relations with its employees despite the distance the “new normal” has imposed upon us all.

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.

However, in 2020, due to the COVID-19 pandemic, the analysts’ briefing scheduled for March 19, 2020 for Full Year 2019 results had to be cancelled as the whole of Metro Manila was placed under a lockdown starting March 17. LTG was able to disclose the Full Year 2019 Results on March 19 and distributed what should have been the presentation materials via email and WhatsApp.

LTG was unable to conduct analysts’ briefings for the first and second quarter results, but was able to conduct a virtual briefing on November 13, 2020 for nine-month results. Close to 60 buy side and sell side analysts, both local and foreign, attended the briefing. LTG discloses the schedule of briefings to the PSE at least a week before the briefing date.



A virtual analysts’ briefing for the Full Year 2020 Results was conducted on March 19, 2021.

During the times that LTG was unable to conduct analysts’ briefings, the materials were emailed to analysts, and questions were answered via email, WhatsApp and Viber. And as practiced since LTG went public, these are made available in the website.

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.

Before the pandemic and after the Annual Stockholders’ Meeting, 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. In 2020, reporters were allowed to send in their questions which were answered.

Tan Yan Kee Foundation, Inc.



LT Group, Inc. and other companies that are majority-owned by the Tan family conduct some 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

Scholars Graduate in School Year 2019-2020

Under the foundation, there were 11 scholars who graduated from the University of the East with courses in accountancy and electronics, civil and mechanical engineering. Meanwhile, six grantees also graduated with degrees in accountancy, civil and mechanical engineering.



At the St. Teresita's Academy in Aritao, Nueva Vizcaya, 3 scholars who are children of farmers graduated from Grade 12.

Scholarships for Law Students

In June, TYKFI awarded scholarships to 10 third year and 10 fourth year students in top law schools in the country. This scholarship program was launched in 2016 in partnership with the Foundation for Liberty and Prosperity and the Philippine Association of Law Schools.

Upgrading the Standards of Education

For over 20 years, the Foundation for Upgrading the Standards of Education (FUSE) has been providing training for teachers nationwide. In January, FUSE gave training on Constructivism.

HEALTH SERVICES

Monthly Medical Forum of the Association of Asia Brewery Medical Scholars (AABMS)

Under the program, medical scholars hold a forum designed for laymen on a monthly basis. Before the Enhanced Community Quarantine was declared, the latest forum was on New Developments in the Diagnosis and Treatment of Prostate Cancer.

SOCIAL WELFARE

Hope Caravan Extends Help to Victims of the Taal Volcano Eruption

Relief goods were distributed in various towns affected by the volcano's eruption on January 12.



In Talisay, Batangas



In Lian, Batangas

Hope Caravan, Fight Versus COVID-19

TYKFI's Hope Caravan distributed medical supplies and food packs in various areas in the country.



ENVIRONMENT

Sustainable Livelihood for Farmers

The model farm at the Dr. Lucio Tan Legacy Forest Project in Nueva Ecija serves as a sustainable source of livelihood for the farmers. Since the project started in 2015, the living standards of the farmers have improved. Many have constructed or renovated their permanent houses, acquired motorcycles, sent their children to college and have started their own businesses. The model farm produced over 45 tons of vegetables and fruits.



COVID-19 Response for 2020

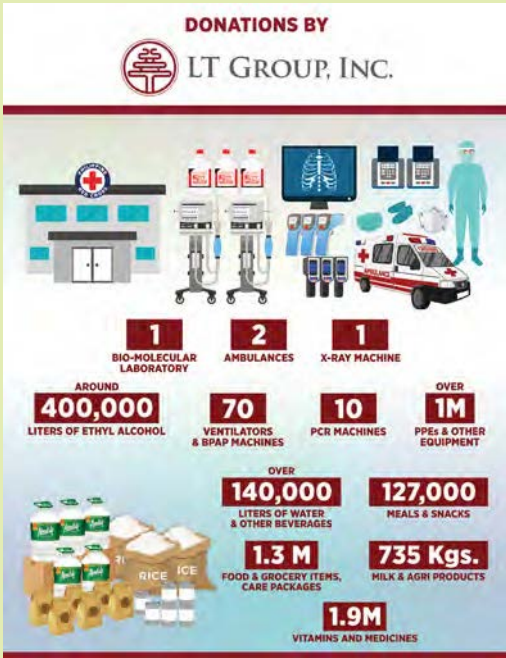
LT Group, Inc. (LTG) and its subsidiaries were one with the country in facing the challenges of the COVID-19 pandemic. This is a summary of the major initiatives of the group.

“I wish to convey my appreciation to our employees and those in the frontlines fighting COVID-19. As in every calamity, our priority is to ensure the health and safety of our employees, customers and the communities we serve. Thank you for your service. We salute you.”

– Dr. Lucio C. Tan, Chairman

“Within our Group, there is no shortage of everyday heroes like those manning the frontlines that keep our businesses running despite great personal risk. Together, we shall overcome.”

– Michael G. Tan, President



Help Flows

Ethyl Alcohol Instead of Rum
In March, Tanduay Distillers, Inc. (TDI) and Asia Brewery, Inc. (ABI) collaborated, and in four days, were able to produce ethyl alcohol instead of rum in TDI's plant in Laguna. The ethyl alcohol was donated to hospitals, local government units (LGUs) and frontliners. One of the first beneficiaries was the Department of Health.



Boxes of ethyl alcohol, bottled water and face masks were turned over to the Department of Health.



At TDI's plant in Laguna



With Tacloban City Mayor Alfred S. Romualdez



With Ormoc City Mayor Richard Gomez



Cebu Governor Gwen Garcia



LTG also donated bottled water to frontliners, which include medical workers and the armed forces.



Water delivered to the San Lazaro Hospital.



Water for those manning the checkpoints.

Testing, Testing, Testing

Polymerase Chain Reaction (PCR) Machines
The group donated 10 PCR machines to help increase the country’s testing capacity.



Rapid Tests with Project ARK
In April, Go Negosyo or the Philippine Center for Entrepreneurship, headed by its founder and Presidential Adviser on Entrepreneurship, Joey Concepcion, launched Project ARK. Under the project, private companies were encouraged to procure and use rapid tests on their employees while at the same time donate to local government units (LGUs), to keep businesses open. This was done at a time when there was a shortage of laboratories able to do swab tests, and it took days before a suspected COVID-19 patient could be tested. LTG and PMFTC Inc. joined Project ARK.



Bio-molecular Lab in Batangas
LTG donated a bio-molecular laboratory to the Philippine Red Cross. The laboratory has a capacity to do 4,000 Polymerase Chain Reaction (PCR) tests for COVID-19 daily. Aside from COVID-19, the PCR machine can detect tuberculosis, cancer, HIV, dengue, malaria, hepatitis and Zika. The laboratory was opened to the public on July 11.

Pooled Swab Testing: Adopt an LGU
LTG is participating in the pooled swab testing of the 17 LGUs in the National Capital Region (Metro Manila) as well as in Cebu

Vaccines, A Dose of Hope
In late November, the group joined other business groups in signing a tripartite agreement with the Philippine Government and Pharmaceutical firm AstraZeneca. Under the agreement, 50% of the vaccines purchased by the private sector will be donated to the government, while 50% will be used by the business groups for their own employees. This was facilitated by Go Negosyo. LTG has been a major sponsor of Go Negosyo for a number of years.



and Iloilo. It is intended to test market vendors, employees of small businesses, teachers, public utility vehicle drivers, among others, to keep the economy open. This was launched by Go Negosyo in August. LTG adopted Marikina City.

International Efforts
In September, LTG sent 27,500 pieces of face shields, 150,000 pieces of disposable masks and 100,000 pieces of vitamin C to the Lebanese Government. These were turned over during a ceremony at the Philippine Embassy in Beirut, where the Department of Foreign Affairs (DFA) also turned over 5,000 boxes of relief goods. The beneficiaries of LTG’s donations were the Rafiq Hariri University Hospital, Beirut General Hospital and the Lebanese Red Cross.



These were carried aboard a Boeing 777 of Philippine Airlines that was chartered by the DFA to repatriate 317 OFWs who either lost their jobs because of the economic downturn following the massive explosion in August, or were too scared to stay there.



Also in September, LTG sent to Papua New Guinea through the DFA, 20,000 pieces of face shields, 50,000 pieces of disposable masks and 100,000 pieces of vitamin C, for the Filipinos living there.

Help Flows for Victims of Natural Disasters

Water, a basic human need, is always LT Group, Inc.'s (LTG) top priority donation during calamities.

Taal Volcano

When the Taal Volcano erupted on January 12, ashfall forced many residents in the province of Batangas to flee to evacuation centers. Initially, the Batangas Government estimated that more than 160,000 people sought refuge in the centers, while an undisclosed number stayed with relatives and friends. Eventually, Batangas Governor Hermilando Mandanas reported later in January that more than one million individuals were displaced by the volcano's eruption, with over 800,000 staying in evacuation centers in Batangas, Cavite, Laguna and Quezon while about 200,000 are staying with relatives.

LT Group, Inc., through the "Help Flows" program of Asia Brewery, Inc., donated over 445,000 liters of Absolute Distilled Water to evacuation centers in affected towns, as well as to local government units and to the various foundations of television networks. The donated bottled water came in 350 milliliter and six-liter bottles, bearing white labels with "Donated by the Lucio Tan Group of Companies" and "Not for Sale" instead of the usual green labels used in the commercially-sold bottles.



Water arrives at an evacuation site



At the Batangas Sports Complex with Governor Hermilando Mandanas

For a sustainable water supply, the Company sent a mobile water refilling station to one of the largest evacuation centers in the Batangas Sports Complex on January 22. The water station has a capacity of processing as much as 13,000 liters of clean drinking water per day.

Other Relief Efforts for Taal Victims

- On January 13, Tan Yan Kee Foundation, Inc. (TYKFI), Tanduay Distillers, Inc. (TDI) and subsidiary Absolut Distillers, Inc. (ADI) and Philippine Airlines, Inc. mounted a joint relief mission. The team brought basic needs like food, personal hygiene products, pillows, blankets, baby strollers and other items.
- Gift packs were distributed to more than 500 families in various evacuation centers Barangays Malaruhatan, Bagong Pook 5 in Lian, Barangay Banilad in Nasugbu, and in Calaca.
- ADI purchased most of the goods from retailers near Taal to help local businessmen.
- Rice and meat dishes were delivered to Barangay Bagong Pook in Lian, near ADI's factory.



Absolut Distillers employees distributing food



PMFTC Human Resources Director Andreea Cristina Chirac at an evacuation center

- From January 13 to 21, PMFTC Inc.'s CSR Program, EMBRACE, distributed face masks, sleeping mats, food products, clothes and blankets, among others, to almost 8,000 families that sought refuge in evacuation centers in the towns of Bauan, Balete, Mabini, Malvar, Mataas na Kahoy, San Luis, San Pascual, Sto. Tomas and Tanauan.



PMFTC President Denis Gorkun helping pack relief goods



One of the evacuation centers visited by PMFTC

- On January 24, Philippine National Bank (PNB) donated 1,000 oral kits, while Eton Properties, Philippines, Inc. pitched in with 500 sleeping mats for evacuees in Lian and Nasugbu. These were conducted with TYKFI.



PNB and Eton employees at an evacuation site

- On February 27, PNB and TYKFI distributed Home Starter Kits to 875 families staying in evacuation centers in Barangay Tumaway, Talisay. Each Home Starter Kit contained a cooking pot, ladle, plates, food utensils, water pail and dipper, among others. Allianz PNB Life Insurance, Inc. donated toothbrushes and ecobags. TDI donated cleaning tools to 845 families from Barangays Tabla, San Isidro, and Miranda.



Typhoons

In the aftermath of typhoons, LTG sends bottled water to those affected and mobile water stations for a longer-term source of potable water. The year 2020 ended with two strong typhoons, Super Typhoon Goni (local name Rolly) in early November, and followed by Typhoon Vamco (local name Ulysses) less than two weeks later. Both devastated many areas and caused massive flooding and landslides.

- LTG was one of the first to respond, sending 150 cases of six-liter bottled water, equivalent to 2,700 liters, to the island Province of Catanduanes in the Bicol Region. These were loaded on a C-130 plane of the Philippine Air Force that departed Villamor Airbase on the morning of November 3.



Boxes of bottled water loaded on a C-130 plane bound for Catanduanes

- On November 3, a truckload of bottled water was also sent to Legazpi City, Albay. It had over 1,000 cases of 350 milliliter and 6-liter bottles, for a total of 14,125 liters.
- A mobile water station was deployed and arrived in Tabaco City, Albay on November 6. It supplied up to 1,000 liters of water per day.



Mobile water station at a barangay in Tabaco City



At an evacuation site in a public school



The mobile water station went to different locations while in Tabaco City.



Residents also used the mobile water station's generator to charge their phones

- Marikina City was one of the most affected cities in Metro Manila. On the evening of November 14, 1,000 cases of bottled water or 15,125 liters were delivered to the Marikina City Hall.
- A mobile water station was deployed in Marikina and it went around the different evacuation centers in the city.



A truckload of water at the Marikina City Hall



Mobile water station in a school used as an evacuation site in Marikina City



ASIA BREWERY, INC.



Plant at El Salvador, Misamis Oriental Participated in Brigada Eskwela
Distributed bottled water to different institutions, and during the yearly Brigada Eskwela week of public schools. Total of 62 boxes.



Livelihood Projects for the City of Cabuyao in Laguna

ABI participated in the City of Cabuyao's livelihood program called Active Labor Market Programs (ALMPS).

In July, ABI donated 50 pieces of used steel drums for the local community's Coffee Rehabilitation Program which produces its own brand Café de Cabuyao.



In August and October, ABI donated 160 pieces of long span roofing sheets for the construction of a lecture hall for a field school where residents will be taught how to make fertilizer and set up fishponds and poultries.

ETON PROPERTIES PHILIPPINES, INC.

Sleeping Mats for the Victims of Taal Volcano Eruption



Eton donated sleeping mats to displaced families, who were affected by the eruption of Taal Volcano, in Lian and Nasugbu, Batangas. These were given through TYKFI.



Rice for Frontliners
Eton actively supported the agroforestry initiatives of the Dr. Lucio Tan Legacy Forest Project in Carranglan, Nueva Ecija. It provides hybrid palay seeds and farm inputs to help farmers produce premium rice. In December 2020, Eton gifted building frontliners with bags of premium rice grown by the farmers and vegetables, cassava, and tomatoes from the Dr. Lucio C. Tan Legacy Forest Project.



Free Rice Seeds and Fertilizers for Farmers Masaganang Palayan (Prosperous Ricefields) with TYKFI

This is an ongoing project for farmers in Comon and Tabueng Artao, Nueva Vizcaya. Farmers are given free rice seeds and fertilizers.



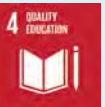
PHILIPPINE NATIONAL BANK

Financial Wellness Sessions for Clients, Students, Teachers, Parents and OFWs and their Dependents

PNB conducted on-site and virtual financial wellness webinars and briefings for the identified target groups to teach financial literacy and promote PNB's products and services.



On February 4, financial literacy seminars were conducted for over a hundred Cooperative Management students, members of the Association of Barangay Treasurers, and Local Government Unit (LGU) employees at the Vigan Culture and Trade Center in Ilocos Sur.



PHILIPPINE NATIONAL BANK

Employee Volunteerism

PNB branches in Tokyo, Hongkong, Singapore, and the US launched donation drives to raise funds for Filipino families affected by the Taal Volcano eruption and Typhoon Ulysses. Meanwhile, employees in the Philippines participated in various CSR activities of the bank. The participation of 1,300 employees rendered an estimated 2,077 manhours.



Bigay Tulong for Outsourced Personnel

A campaign to provide assistance for PNB Outsourced Personnel who were temporarily not allowed to go to work due to the Enhanced Community Quarantine. Launched in April 2020, the campaign generated Php893,351.94 from contributions of PNB employees. Cash of Php689,000 was distributed to 675 affected outsourced personnel in different parts of the country. The remaining funds of Php195,000 was used for a one-time accident insurance coverage good for one year for the outsourced personnel based in the PNB Financial and Makati Centers. A second campaign was launched in December to raise additional funds to provide accident insurance for outsourced personnel in other parts of the country.



What Outstanding Work! (WOW!) Awards

WOW! is a year-round recognition project linked to the Living Our Values Everyday (L.O.V.E.) email bulletin designed to recognize on-the-spot values-centered and/or business-driven behavior.



Employee Mental and Physical Wellness

PNB has various activities on this:

- Monthly Health First Bulletin is disseminated through email blasts and bulletin boards.
- Mental Health in a Pocket: A two-hour webinar that tackles various areas of mental health is given every other Thursday of the month by a psychologist.
- Employees are given access to a 24/7 Mental Health Hotline via Konsulta MD app as part of the services of the Bank's healthcare provider. Employees can consult with general practitioners or specialists, and if necessary, referred to a licensed psychologist or psychiatrist.
- Through the Medical Teleconsultation Hotline of the bank's healthcare provider, employees who would like to consult a doctor for any of their health and medical concerns can do so via a call or SMS. This avoided unnecessary hospital trips and possible exposure during the community quarantine periods.
- Internal Mental Health Hotline with the Bank's in-house Certified Psychosocial Support Facilitator. Since the start of the COVID-19 Pandemic, the hotline assisted 105 cases with 35 repeat calls in 2020.
- Health Bulletin: Building Positivity through Resilience. A platform where stories of employees who experienced challenges during the onset of COVID-19 were shared with the PNB Community.
- In July, a one-hour E-Zumba Anniversary Special. Due to the pandemic, the regular Zumba classes at the head office were put on hold. The e-zumba special sought to remind employees to make time for physical exercise while working from home.



PMFTC INC.



EMBRACE is the CSR Program of PMFTC Inc.

Sewing Livelihood Project

The pandemic has caused massive unemployment in the entire Philippines, and has impacted the livelihood of many Filipinos. Women, in particular, are the most affected since they are the ones ensuring their family's total welfare. PMFTC, together with its program partners, conducted a capacity-building training program and provided sewing machines and start-up kits to four cooperatives in Benguet, Taguig City, Marikina City and Tanauan City. The project was a means to provide alternative livelihood, helping women from these cooperatives generate additional income to support their families' daily needs.



COVID-19 Relief Response

PMFTC continues to take a leading role in helping the nation's response to COVID-19, together with the government, civil society and communities across the country. PMFTC has made corporate donations to support non-profit organizations working on relief and containment efforts for COVID-19 in the country. As of end-2020, the program has benefitted 118 public hospitals and 1.6 million individuals across 17 regions, 61 provinces, and 115 municipalities nationwide. PMFTC's donations include providing support to medical institutions, frontline healthcare workers and quarantine officers, food aid, medical nutrition products and bottled water to bring relief to those most affected by the pandemic, among others.





Scholarship for Law Students
PMFTC believes in making a meaningful contribution to society through investing in the education of the next generation of Filipinos. Students, who in the future, will conscientiously and proactively involve in the betterment of society, community, and country. Through EMBRACE, PMFTC awarded scholarships and financial grants to 14 qualified indigent scholars in the National Capital Region, all of whom are taking up a professional Law degree. The scholarships cover the academic years of 2019-2020 to 2022-2023.



Environmental Protection
PMFTC, together with its program partners, is leading an effort to raise awareness of the importance of environmental protection and its vital role in poverty eradication, environmental sustainability, and food security. In 2020, 1,732 seedlings were planted in a highly urbanized city to help improve air quality of public spaces, and help reduce effects of calamities such as floods brought about by heavy rains. A total of 208 waste bins were also donated in various areas to help improve waste management, and maintain cleanliness in the area.



Assistance for Distance Learning
A large number of students nationwide still do not have sufficient resources to adapt to distance learning. To help address this situation, EMBRACE reached out to schools in the country to aid them in this transition of blended learning by providing necessary tools such as laptops, tablets, printers, photocopier machines and other school supplies to ensure uninterrupted learning amidst this pandemic. In 2020, the program has benefitted approximately 11,000 students and 600 schools. One of the beneficiaries was Pag-asa Elementary School in the Kalayaan Islands in the Province of Palawan.



Disaster Relief and Response
PMFTC has provided timely and efficient community-based interventions geared towards preparing communities to become more resilient and responsive in the face of complex emergencies. PMFTC provided food aid, hygiene kits, and medicines as relief assistance to more than 1 million individuals in various communities nationwide.
Demonstrating the spirit of solidarity, the employees of PMFTC volunteered and donated relief assistance to 500 individuals from Tanauan, Batangas who were affected by the eruption of Taal Volcano. The first wave of 500 relief packs from employees was distributed on January 18, where 32 volunteers from the Marikina and Batangas Plants, Sales Offices, and Head Office personally delivered help to the families of the Poblacion 5 Evacuation Center, one of the critical evacuation sites in Tanauan City, Batangas.



In October and November 2020, PMFTC, through the effort of its employees, provided relief assistance to 255 employees who were affected by Typhoons Rolly and Ulysses in Marikina, Bicol and Central Luzon.



Promoting Proper Waste Management
To assist farmer communities tackle the problem of waste and littering, 10 “garbage-to-cash” (Waste Banks) were established as means to dispose waste properly and as a source of alternative livelihood for the farming communities. Community members deposit waste in their own waste bank accounts, and withdraw cash coming from the sale of recyclable wastes. Through close coordination with local government units and private sector partners, the 10 waste banks in San Juan and Santa Cruz, Ilocos Sur have already provided financial and organizational training to community members benefitting 281 individuals.



TANDUAY DISTILLERS, INC.



River Clean-Up
Employees of the Cabuyao plant participated in the clean-up of the Mamatid Baclaran River on February 28. They joined other members of the Cabuyao River Protection Advocates (CaRPA) and Cabuyao City Environment and Natural Resources Office (CENRO).



Donation of Ethyl Alcohol to Various Government Units in Misamis Oriental, Cagayan de Oro City and Negros Occidental
On April 6, The TDI plant in El Salvador (Elsa), Misamis Oriental, donated 25 Boxes of 70% Solution ethyl alcohol to the Municipality of Alubijid, Misamis Oriental. Each box has 24 pieces of 375 milliliter bottles.



On April 6, 50 boxes were donated to the Local Government Unit of El Salvador, Misamis Oriental.



On April 6, 25 boxes were donated to the Municipality of Laguindingan, Misamis Oriental.



On April 6, 25 boxes were donated to the Municipality of Opol, Misamis Oriental.



On April 8, the Elsa plant donated 5 boxes to the Bureau of Internal Revenue.



On April 8, five boxes were donated to the Department of Environment and Natural Resources- Environmental Management Bureau Region X.



On April 13, ten boxes were donated to the OWWA Misamis Oriental Provincial Hospital in Alubijid, Misamis Oriental.



On April 15, fifteen boxes were donated to the Municipality of Gitagum, Misamis Oriental.



On April 15, two boxes were donated to Barangay Macasandig, Cagayan De Oro City.



On May 18, 15 boxes were donated to the Local Government Unit of Libertad, Misamis Oriental.



From April to May, alcohol was donated to various entities in the Province of Negros Occidental. These included the Bacolod Highway Patrol Group, Philippine Coast Guard Bacolod Station, Murcia Philippine National Police (PNP), Murcia Bureau of Fire Protection, Murcia Mayor's Office, Murcia Health Office and checkpoints.

Drums for the Isolation Units of El Salvador City Health Office



On July 9, TDI donated 10 metal drums to be used as containers for the soiled isolation gowns, PPE, and other waste in the isolation units.

Donation of Scrap Plyboards and Pallets

On November 23, TDI Elsa donated 15 wooden pallets to be used for a lantern making contest of the City's Local Environment and Natural Resource Office.



In January and February, TDI donated 420 damaged wooden pallets and 210 damaged plyboards to the Elsa City Social Welfare & Development Office for use in different barangay daycare centers.



Trash Bins for City Local Environment & Natural Resource Office (CLENRO)

On June 9, TDI donated 28 waste segregation bins in El Salvador.



Brigada Eskwela

TDI donated bond paper and ethyl alcohol to Malaruhatan and Humayangan Elementary Schools in Lian, Batangas.



Community Disinfection

At the start of the pandemic, TDI subsidiary, Absolut Distillers, conducted disinfection activities in several areas in Batangas.



Fence for Police Station

Absolut Distillers added barbed wire to the concrete fence that it constructed the previous year for the Lian Municipal Police Station in Batangas.



Tilapia Fingerlings

Every quarter, Absolut Distillers releases tilapia fingerlings in the Palico-Lian River near the plant in Lian, Batangas. This helps the fishermen in the area to have a continuous source of livelihood.



Participated in the National Greening Program (NGP)

The Company planted rubber trees in a portion of the 200-hectare NGP site in Sitio Binobon, Amulung, Cagayan. Absolut Distillers also adopted five hectares in Barangay Puting Kahoy in Lian, Batangas on October 29.



Green Canopy Tree Planting Project

More trees were planted in Lian, Batangas.

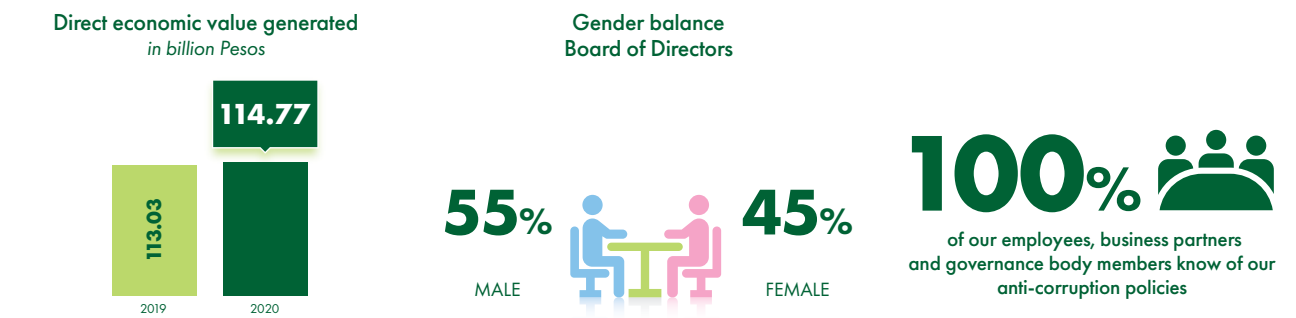


“This is our second sustainability report. We have built on the progress we made last year and remained true to our commitment to sustainability and service to our fellowmen. This is captured by our theme, ‘Strengthening Sustainable Foundations’.”

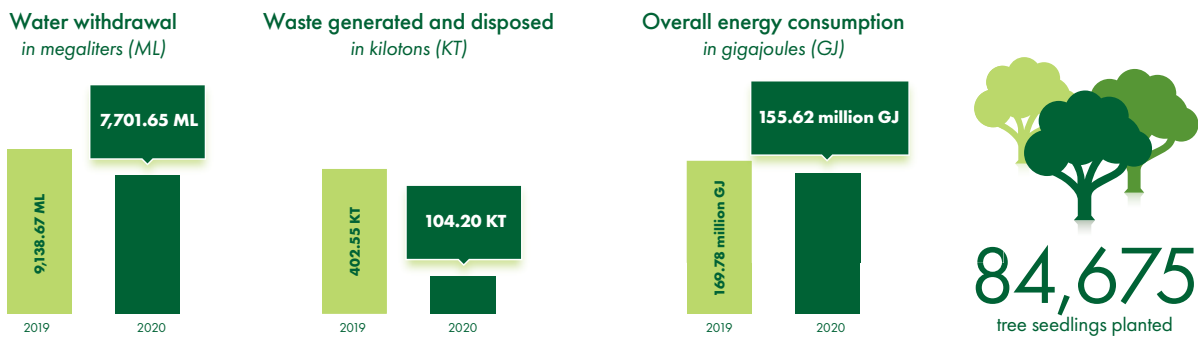
-Dr. Lucio C. Tan
Chairman and CEO

2020 Highlights

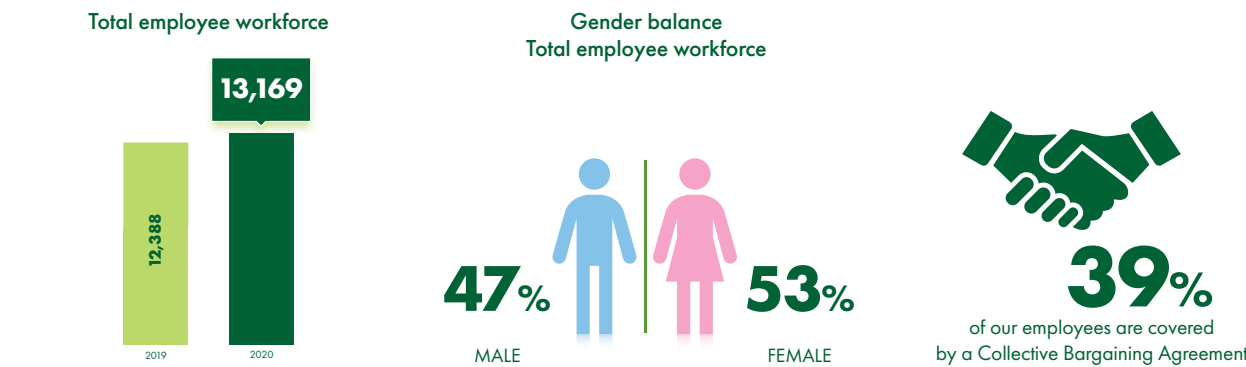
ECONOMICS AND GOVERNANCE



ENVIRONMENT



EMPLOYEES



“Despite all the challenges we faced this year, we remain steadfast in our commitment to sustainability and service to society. We believe in collaborating and finding solutions for the common good.”

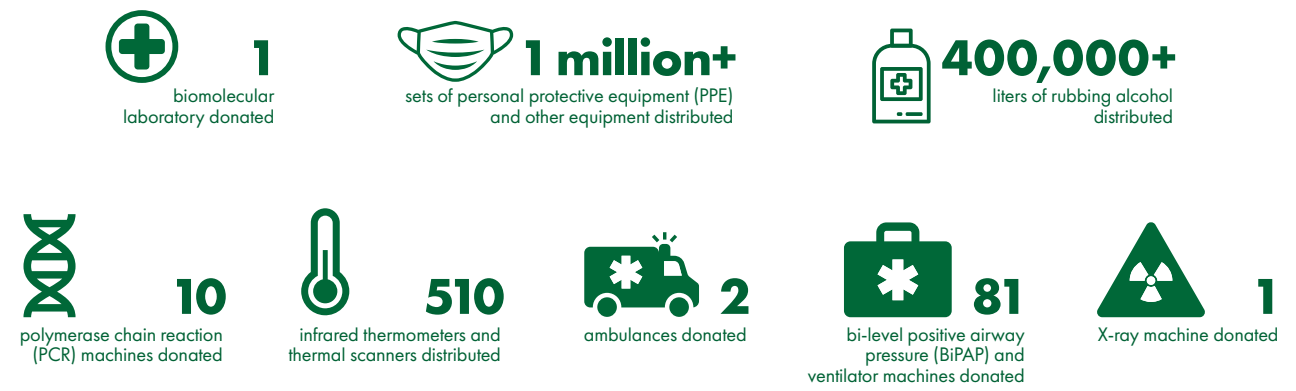
- Michael G. Tan
President and COO

2020 Highlights

SOCIETY



ANTI COVID-19 CAMPAIGN



LT GROUP, INC.
SUSTAINABILITY REPORT

The 2020 LTG Sustainability Report has been prepared in accordance with the GRI Standards: Core option, and the sustainability reporting guide provided by the Philippine SEC in Memorandum Circular No. 4, Series of 2019. This report is also aligned with the 17 United Nations (UN) Sustainable Development Goals (SDGs) to further our commitment in contributing to the global sustainable development agenda.

Explore our full Sustainability Report via <https://ltg.com.ph/sustainability-reports/>

ASIA BREWERY, INC.

Reduction in Electricity, LPG, Bunker Fuel, Coal, Steam and Compressed Air Consumption

At the ABI complex in Cabuyao, Laguna, the Printing Process Section targeted to reduce its consumption of electricity and LPG (liquefied petroleum gas) by 10% by eliminating one of the eight steps in printing the labels of Cobra returnable glass bottles. From April to December, there was a 13% reduction in electricity consumption and 9% for LPG.



In September, the glass plant in Sta. Rosa, Laguna installed a variable frequency drive (VFD) in the mold cooling blower to optimize its use of cooling air. This resulted in a 44.7% reduction in electricity consumption. It also reduced CO2 emission equivalent to 1.4 tons per day

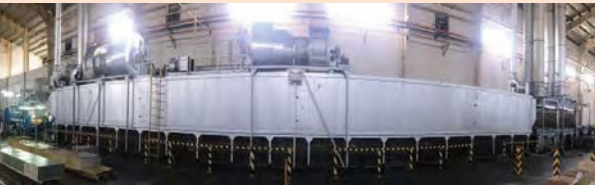


Annual preventive maintenance in the glass plant were undertaken, which included patching a worn out melter side wall and dog house refractory blocks, and the repair of the melter crown. These maintenance measures were done to prevent glass leaks, reduce energy consumption and prolong the furnace's life. The efforts resulted to a savings of 122.6 liters of bunker fuel per ton of glass.

In the steam plant, damaged refractories and castables were repaired to reduce heat loss and inefficient boiler operations. For 2021, savings for coal reached 678,155 megaJoules (MJ) for coal, and CO2 emission was reduced by 19.8 tons.



At the compressed air plant, descaling and rehabilitation of the closed-circuit cooling towers were done. For 2020, savings on electricity were over 3 million MJ, while CO2 emission was reduced by over 690 tons.



At the metal printing and drying section, where the crowns of the returnable glass bottles of Cobra are manufactured, the production process was streamlined to eliminate the second pass of white printing. This reduced energy consumption by 13% and LPG consumption by 9%. CO2 emissions were also reduced by 109 tons from April to December 2020.

A new substation was built near the dormitory to replace the one commissioned in 1980. The new substation resulted to savings of 63 kilowatt hours for every 24 hours.



A 220-volt transformer that has not been operational for 15 years was decommissioned. The transformers can be used in the future.



A more energy efficient chopper type submersible pump was installed at the power plant sump pit, and the pipes were also replaced. This resulted in 6,750 kwh savings per month.

Old oak barrels of Tanduvay were used to partially replace coal to create steam. These reduced the boiler's operational cost while eliminating Tanduvay's need to dispose of the wood.



At the wastewater treatment plant in Davao, maintenance work has been done on the corroded air blower. Savings of 10,230 kwh of electricity and a reduction 5.6 tons of CO2 emissions were realized from March to December 2020.



At the bottled water plant in Pampanga, the leaking and inefficient steam heat exchanger in line 2 was replaced to increase steam yield. Steam increased by 349 kilograms per day. The filler bowl in line 1 was also repaired to minimize air wasted in the industrial compressed air system, amounting to 82.88 cubic feet per minute.



Also at the bottled water plant in Pampanga, 98 conventional lights were replaced by light-emitting diodes (LED). The LEDs each required 10 watts less of electricity.



ABI Heroes at Work
On April 4, the company gave a virtual salute in appreciation of the dedication and hard work of its employees.



Covid Response within the Company



Distribution of ethyl alcohol to employees



Installation of body misting chambers, truck misting and hand washing stations

COVID-19 safety precautions were implemented in offices and plants. Physical distancing is practiced inside the office and canteen and fiber glass partitions were installed. Virtual meetings were encouraged and the number of persons in conference rooms were limited to five per meeting.



Foot operated sanitation stations were placed in strategic locations. Direction arrows and signs were placed as guides for physical distancing. Foot operated hand washing areas were also installed.

In all bathrooms, signs reminding users to close the lid before using the foot operated flush were placed. Also, bio-hazard waste bins were added, with instructions on how to properly dispose of face masks. Buildings are regularly disinfected.



A shuttle program was implemented to ensure that employees are safe and secure on their way to and from work and home, avoiding possible exposure to the virus when taking public transportation. Vitamin C, face masks and face shields were also provided.



Rapid Antibody or Swab Antigen Tests were conducted on contractors, visitors (depending on specifications according to official guidelines) and employees who underwent home quarantine to ensure the safety of all employees.



Mental Health Webinar: An Elephant in the Room

On September 30, at the El Salvador plant, a virtual training focusing on mental health was shared via Zoom. The session focused on the importance of mental health on the emotional, psychological and social well-being of employees.



Programs to Keep Morale High



Virtual Christmas Tree Lighting Ceremony in El Salvador (Elsa), Misamis Oriental Plants
On December 4, a virtual Christmas tree lighting was held at the Elsa plants to welcome the holiday season. It was made special with ABI Chief Operating Officer, Mr. Michael G. Tan, gracing the occasion. The simple ceremony brought happiness and boosted the morale of the employees.

We Heal as One TikTok Challenge

#AlagangABI is a program for employees to exhibit their creativity in the We Heal as One TikTok Challenge. It helped promote the Company, its products and the new normal health protocols.

In Elsa, the monthly eucharistic celebration is still conducted even in the new normal. The Year-End Virtual Thanksgiving Mass was organized to reflect on the challenges and the good things that 2020 brought.



Additional Racking System in the El Salvador (Elsa) Plants



A total of 4,755 new pallets were purchased for the bottled water plant to increase the capacity of the warehouse and avoid congestion that causes stoppage of operations. This also eliminated the need to rent another warehouse which costs over Php5 million per year.



El Salvador (Elsa) Plants Improvements:



The blow molding machine was given an overhaul, which was 80% completed by the time the lockdown was declared by the government. Targeted to minimize downtime and increase production output and utilization, the overhaul resulted in 11.8% increase in efficiency in 2020.

The line 2 of filler #1 was rehabilitated and an ante-room in the carbonated soft drinks (CSD) plant was installed, in compliance with Good Manufacturing Practice (GMP) and food safety.



A bypass conveyor for prewashing of empty bottles in the CSD production line 2 was installed to increase output. From 5,600 cases in 12 hours, this increased to 12,600 cases.



In December, a sterile air system was installed for CSD production lines 2 and 3 to reduce CO2 consumption. Starting January 2021, the plant was able to fill 6.23 cases more per kilogram of CO2.



Improvements in the Glass Plant in Cabuyao, Laguna

Reduction of Fine Cullet Accumulation

There were further refinements in the glass plant to increase yield. The second revision of the recycling plant's washing drum extruding exit part reduced the accumulation of fine cullet during processing. The result was an over 1 percentage point reduction in the accumulation in fine cullet from 3.6% to 2.13% for foreign cullet and 3.8% to 2.15% for Tanduy bottle cullet.



Using leftover Plastic Film from the Automatic Wrapping Machine

The plant eliminated the need for purchasing 5-kilogram plastic film wrap for bottles that were reworked by using the leftover stretch film from the automatic wrapping machine that came in 15-kilogram spools. Previously, around 50 spools of the 5-kilogram film were used monthly.

Replacement of Wooden Top Frames into Plastic

The company is able to reuse the plastic frames up to 30 times, compared to only twice for wooden frames. The plastic frames also provide more stability.



Launched Healthier Products

In 2020, ABI launched products that fit into the health and wellness trend. Sunkist Freshie is a carbonated drink in two variants, yoghurt and apple, with no sugar added and has vitamins and minerals. Vitamilk Strawberry has 33% lower sugar content than other variants. Cobra Plus Vitamin C has Vitamins C, D and Zinc.



PHILIPPINE NATIONAL BANK

Sustainability Policy, Three-Year Sustainability Transition Plan and Sustainable Finance Framework

PNB developed sustainable policy in compliance with the Bangko Sentral ng Pilipinas (BSP) Circular 1085 which requires all Banks to integrate environmental, social, and governance principles in their business and operations.

PNB developed a three-year sustainability transition plan for 2021 to 2023 that lists down the activities or initiatives that the Bank needs to implement in all aspects of its businesses and operations.

The Sustainable Finance Framework illustrates how PNB intends to enter into Sustainable Financing Transactions (SFTs) which is to finance or refinance projects and expenditures that will have a positive environmental and social impact and likewise support the Bank's growth objectives.

These were submitted to the BSP on December 3.



EDGE Certification as Gender Equal

PNB became the first universal bank in the Philippines to be certified as gender-equal after receiving its Economic Dividends for Gender Equality (EDGE) Certification on March 30, 2020. EDGE is the leading global assessment methodology and business certification standard for gender equality.



Digital Wellness and Sustainability Fair

In November, the bank conducted its first week-long online fair covering different areas of wellness. Resource Persons were invited to talk on different topics during lunch breaks on recommended exercises for WFH employees, mental health care, financial wellness, basics of urban gardening, and sustainable eating.



Financing Green and Sustainable Businesses and Projects

PNB granted Php232 billion in loans to sustainable businesses and projects, such as food manufacturing, agricultural production, water distribution and supply, energy generation and distribution, construction and operation of tolls roads and bridges, telecommunications infrastructure, responsible packaging, construction of green buildings and health facilities.



Reduction of Energy and Water Consumption

The Administration Group took the opportunity to make the necessary electrical repairs, replace broken water pipes, faucets, closets, and lavatories and maintenance works in both the PNB Financial Centre in Pasay City and the Makati Centre as less employees were reporting to these offices given the work-from-home arrangements during the COVID-19 Pandemic. Savings on electricity amounted to Php18.8 million, while savings on water amounted to Php3.6 million in 2020.



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 that was launched in July 2019. For 2020, the project focused on encouraging employees to use washable face masks, eco-bags for groceries, re-use of plastic food containers, forgo use of plastic cutleries in online food deliveries, and consider sustainable-giving during the Holidays.



PMFTC INC.

Top Employer Certification



PMFTC got certified by the Top Employers Institute for the second time since the Company joined in 2019. It shows Management's commitment to be the best organization for its people, and to establish a culture that cares for its employees and prioritizes its engagement and safety.



Improvements in the Batangas Factory to Reduce CO2 Emissions



Installation and centralization of VFD Vacuum pump with an estimated reduction of 261 tons of CO2 emissions annually.



Re-establishment of new Centerlines for Chiller System with an estimated reduction of 146 tons of CO2 emissions annually.



Upgraded the 5 cooling tower motors with high efficiency ones and replaced their cooling fins with an improved design for better cooling. Estimated CO2 emissions reduction is 211 tons per year.



Reduction of Water Usage

In the Marikina plant, Reverse Osmosis (RO) reject water was utilized for the cooling tower. Actual reduction in soft water consumption from June to December was 4,700 cubic meters.



Minimize Use of Single Use Plastic



In the Batangas and Marikina plants, the Company has been working towards the elimination of single use plastic. The effort continued on despite the need for single-use hygiene products due to the pandemic. Employees were encouraged to bring their own utensils and water containers to minimize the use of single use plastic materials.



Culture of Safety



Mission Zero Level Up continues in the two factories. This annual program aims to achieve a culture of safety.



The first batch of Safety Champions were selected in June. They continuously develop their capabilities to become the role models of safety in their cells/lines.



Improvements were made to standardize pedestrian and mobile equipment pathways to a safer work environment. These include the implementation of visual standards, barricades, parabolic mirrors to eliminate blind corners and blue lights for forklifts to improve visibility.



1001 Small Interventions is a program for simple yet impactful interventions that encourages employees to be safe at all time.

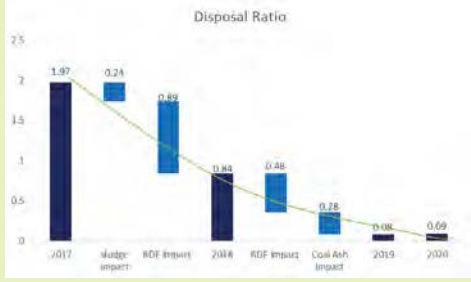
The Behavior Observation Program enables all employees to develop a mindset of care for other's safety; reinforcing safe behaviors and doing intervention for unsafe behaviors by providing feedback.



I-Care enables all employees to provide feedback to anyone in the organization, reminding them to always be safe considering the four states of mind that can cause an accident – rushing, frustration, fatigue and complacency.



Reduction of Waste to Landfill



At the Batangas and Marikina plants, the Company continues to work towards the goal of zero non-mandated waste to landfill. This is done by the proper disposal of waste to composting and waste to energy facilities.



The Rapid Testing Program is composed of the 3Ts, which is simply Test, Trace, and Treat or Isolate. The aim is early detection of cases to prevent the transmission or spread of the virus in the places of work. There is 100% rapid test screening of all employees and personnel across all sites.



COVID-19 Prevention Measures



The factories have control measures to prevent the spread of COVID in the workplace. This includes testing and health monitoring, provision of PPEs, regular disinfection, facilities to enable physical distancing, communication campaigns and others.

The COVID-19 Health and Safety Program is intended to keep all employees updated on all COVID-19-related health and safety guidelines and protocols. It also aims to enhance protection through provisions of PPE and hygiene items and disinfection of all sites and the reinforcement of prevention by implementing health and safety protocols across all sites.



Flu Vaccination Program

The Company's program covered 100% of work sites nationwide. Its aim was to boost the immune system and minimize likelihood of having flu for all our employees including their dependents.



TANDUAY DISTILLERS, INC.

COVID-19 Response in the Workplace



From July 2020 onwards, personnel in TDI's plants were given a supply of vitamins.



Starting November, personnel in TDI's plant in Cabuyao, Laguna were given monthly rapid tests to ensure a safe working environment.





STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **LT Group, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for each of the three years ended December 31, 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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


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

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

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

Signed under oath by the following:


Lucio C. Tan
Chairman and
Chief Executive Officer


Michael G. Tan
President


Jose Gabriel D. Olives
Chief Financial Officer

Signed this 15th day of March 2021

INDEPENDENT AUDITOR'S REPORT



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

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

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

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 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.

Adequacy of Allowance for Credit Losses on Loans and Receivables

Philippine National Bank's (PNB, a subsidiary) application of the expected credit losses (ECL) model in calculating 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 PNB's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality, taking into account extension of payment terms and payment holidays provided as a result of the coronavirus pandemic; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset, expected recoveries from defaulted accounts, and impact of any financial support and credit enhancements extended by any party; and incorporating forward-looking information, including the impact of the coronavirus pandemic, in calculating ECL.

Allowance for credit losses on loans and receivables as of December 31, 2020 and the provision for credit losses in 2020 amounted to P34,411.4 million and P15,860.8 million, respectively.

The disclosures related to the allowance for credit losses on loans and receivables are included in Notes 8 and 32 of the financial statements.

Audit Response

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

We (a) assessed PNB'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, credit risk management policies and practices in place, and management's assessment of the impact of the coronavirus pandemic on the counterparties; (c) tested PNB's application of internal credit risk rating system, including the impact of the coronavirus pandemic on the borrowers, 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 PNB'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 violations, and the effects of any financial support and credit enhancements provided by any party; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the forward-looking information used through statistical test and corroboration using publicly available information and our understanding of PNB's lending portfolios and broader industry knowledge, including the impact of the coronavirus pandemic; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets

of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We involved our internal specialists in the performance of the above procedures.

We reviewed the completeness of the disclosures made in the financial statements.

Recognition of Deferred Tax Assets

As of December 31, 2020, the deferred tax assets of PNB amounted to P8,437.8 million. The recognition 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 estimation uncertainty on PNB's expected performance has increased as a result of uncertainties brought about by the coronavirus pandemic.

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 on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of PNB and the industry, including future market circumstances and taking into consideration the impact associated with the coronavirus pandemic. 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, an associate) that is accounted for under the equity method. For the year ended December 31, 2020, the Group's share in the net income of PMFTC amounted to P16,974.17 million and accounts for 76% 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 the statutory auditor of PMFTC 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, 2020. 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 as of and for the year ended December 31, 2020 and recomputed the Group's share in net income for the year then ended.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated financial statements and our auditor's report thereon.

The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 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.

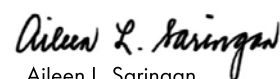
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 Aileen L. Saringan.

SYCIP GORRES VELAYO & CO.



Aileen L. Saringan
Partner
CPA Certificate No. 72557
SEC Accreditation No. 0096-AR-5 (Group A),
July 25, 2019, valid until July 24, 2022
Tax Identification No. 102-089-397
BIR Accreditation No. 08-001998-058-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534360, January 4, 2021, Makati City

March 15, 2021

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Thousands)

	December 31	
	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P304,061,222	P184,913,132
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	23,858,324	13,469,380
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	59,680,618	16,968,590
Financial assets at amortized cost (Notes 7 and 17)	40,216,142	25,252,670
Loans and receivables (Notes 8 and 17)	223,006,163	260,926,594
Inventories (Note 9)	13,175,605	12,196,871
Due from related parties (Note 22)	1,954,502	2,029,436
Other current assets (Note 10)	10,908,904	11,379,265
	676,861,480	527,135,938
Assets of disposal group classified as held for sale (Note 37)	7,945,945	—
Total Current Assets	684,807,425	527,135,938
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	393,592,324	411,253,754
Financial assets at FVTOCI (Notes 7 and 17)	76,644,306	110,549,031
Financial assets at amortized cost (Notes 7 and 17)	55,019,851	75,212,087
Investments in associates and joint ventures (Note 11)	23,777,783	27,254,278
Property, plant and equipment (Note 12):		
At appraised values	59,918,473	59,811,911
At cost	11,586,799	12,087,216
Investment properties (Note 13)	32,837,375	32,631,441
Deferred income tax assets - net (Note 29)	8,889,031	2,386,671
Other noncurrent assets (Notes 14, 23 and 38)	6,049,087	7,508,226
Total Noncurrent Assets	668,315,029	738,694,615
TOTAL ASSETS	P1,353,122,454	P1,265,830,553

LIABILITIES AND EQUITY

Current Liabilities		
Deposit liabilities (Note 15)	P822,131,355	P772,143,072
Financial liabilities at FVTPL (Notes 16 and 21)	701,239	245,619
Bills and acceptances payable (Note 17)	72,978,082	51,821,601
Accounts payable and accrued expenses (Note 18)	20,849,044	26,700,462
Short-term debts (Note 19)	4,740,000	5,150,000
Current portion of long-term debts (Note 19)	14,527,082	1,002,593
Income tax payable	1,008,067	690,518
Due to related parties (Note 22)	65,325	65,325
Other current liabilities (Notes 20 and 38)	10,180,106	18,842,433
	947,180,300	876,661,623
Liabilities of disposal group classified as held for sale (Note 37)	6,353,964	—
Total Current Liabilities (Carried Forward)	953,534,264	876,661,623

	December 31	
	2020	2019
Total Current Liabilities (Brought Forward)	P953,534,264	P876,661,623
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	58,380,208	46,095,883
Bills and acceptances payable (Note 17)	14,181,368	4,141,689
Long-term debts - net of current portion (Note 19)	55,215,562	71,566,863
Net retirement benefits liability (Note 23)	2,418,637	1,699,743
Deferred income tax liabilities - net (Note 29)	8,327,412	8,510,128
Other noncurrent liabilities (Note 20)	5,526,724	3,147,053
Total Noncurrent Liabilities	144,049,911	135,161,359
Total Liabilities	1,097,584,175	1,011,822,982

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
Other comprehensive income, net of deferred income tax effect	15,056,237	18,038,315
Other equity reserves	(2,058,370)	1,024,653
Reserves of disposal group classified as held for sale	88,616	—
Retained earnings	125,612,353	112,604,635
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)

	185,413,937	186,921,541
Non-controlling interests (Notes 1, 7, 12 and 30)	70,124,342	67,086,030

Total Equity	255,538,279	254,007,571
TOTAL LIABILITIES AND EQUITY	P1,353,122,454	P1,265,830,553

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

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

	Years Ended December 31		
	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
REVENUE (Note 24)			
Banking	P54,800,902	P56,522,642	P40,172,558
Distilled spirits	25,000,110	19,261,735	18,062,573
Beverage	12,227,532	15,234,051	14,125,559
Property development	2,399,390	3,132,431	3,198,735
	94,427,934	94,150,859	75,559,425
COST OF GOODS SOLD AND SERVICES (Note 24)	42,858,864	46,802,440	35,965,402
GROSS INCOME	51,569,070	47,348,419	39,594,023
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	17,614,907	14,813,251	7,966,691
	69,183,977	62,161,670	47,560,714
OPERATING EXPENSES			
Selling expenses (Note 25)	2,051,114	3,011,424	2,700,387
General and administrative expenses (Note 26)	47,897,268	31,596,421	28,302,277
	49,948,382	34,607,845	31,002,664
OPERATING INCOME	19,235,595	27,553,825	16,558,050
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	747,095	1,049,965	1,090,891
Finance costs (Note 27)	(341,467)	(450,841)	(145,457)
Finance income (Note 27)	42,421	146,253	206,641
Others - net (Note 28)	1,902,969	2,843,597	7,837,908
	2,351,018	3,588,974	8,989,983
INCOME BEFORE INCOME TAX	21,586,613	31,142,799	25,548,033
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	5,976,621	4,192,172	4,785,686
Deferred	(6,648,541)	(513,537)	(15,886)
	(671,920)	3,678,635	4,769,800
NET INCOME FROM CONTINUING OPERATIONS	22,258,533	27,464,164	20,778,233
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS	67,583	101,593	(219,972)
NET INCOME	P22,326,116	P27,565,757	P20,558,261
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P21,021,996	P23,117,524	P16,194,778
Non-controlling interests	1,304,120	4,448,233	4,363,483
	P22,326,116	P27,565,757	P20,558,261
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company (Note 31)	P1.94	P2.14	P1.50
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	P1.94	P2.13	P1.51

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
NET INCOME	P22,326,116	P27,565,757	P20,558,261
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i>			
Net changes in fair value of financial assets at FVTOCI (Note 7)	(734,748)	2,260,682	(145,484)
Income tax effect	—	—	—
	(734,748)	2,260,682	(145,484)
Translation adjustments	(275,320)	(916,208)	451,664
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	(1,010,068)	1,344,474	306,180
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Share in aggregate losses on life insurance policies	(1,051,118)	—	—
Net changes in fair value of financial assets at FVTOCI (Note 7)	(1,616,606)	4,974,003	(718,772)
Income tax effect	484,982	(1,492,201)	(214,593)
	(1,131,624)	3,481,802	(933,365)
Remeasurement gains (losses) on defined benefit plans (Note 23)	(1,516,399)	(1,448,458)	954,113
Income tax effect	454,920	276,868	(103,469)
	(1,061,479)	(1,171,590)	850,644
Share in remeasurement gain on defined benefit plans of associates (Note 11)	203,269	1,001,641	57,018
Net revaluation increase on property, plant and equipment (Note 12)	39,444	858,633	23,910,070
Income tax effect	(11,833)	(257,590)	(7,173,021)
	27,611	601,043	16,737,049
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	(3,013,341)	3,912,896	16,711,346
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(4,023,409)	5,257,370	17,017,526
TOTAL COMPREHENSIVE INCOME	P18,302,707	P32,823,127	P37,575,787
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	P18,286,014	P26,501,864	P25,558,850
Non-controlling interests	16,693	6,321,263	12,016,937
	P18,302,707	P32,823,127	P37,575,787

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Amounts in Thousands)

Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36)															
	Other Comprehensive Income (Loss)														
	Capital Stock	Capital in Excess of Par	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at FVTOCI (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans of an Associate (Note 11)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss)	Non-controlling Interests (Notes 2, 12 and 30)			
BALANCES AT JANUARY 1, 2018	P10,821,389	P35,906,231	P18,060,000	P804,095	P-	P983,878	P2,835,828	P(934,595)	P3,733,860	P145,048	P6,764,019	P77,229,912	P149,572,127	P46,288,764	P195,860,891
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	4,383,483	20,558,261
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	9,364,072	17,017,526
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	25,558,850	37,575,787
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,164,278)	(2,183,635)
Reversal of disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(62,655)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BALANCES AT DECEMBER 31, 2018	10,821,389	35,906,231	18,060,000	804,095	(21,893)	1,152,659	1,687,797	(331,706)	12,689,666	202,066	15,410,482	91,998,914	172,966,699	59,223,689	231,190,388
AS PREVIOUSLY REPORTED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reversal of disposal group classified as held for sale	-	-	-	-	-	-	-	(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	172,966,699	59,223,689	231,190,388
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	23,117,524	27,955,757
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	4,448,233	5,557,370
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	3,384,340	1,873,030
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-	-	-	6,321,263	32,823,127
Early redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,326,908)	(3,330,280)
Increase in noncontrolling interest without loss of control	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,521,163)	(9,521,163)
Other equity reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	2,539,185	2,539,185
Effect of change in accounting policy on borrowing costs (Note 2)	-	-	-	-	-	-	-	-	-	-	-	-	-	436,473	441,738
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	(135,424)	(135,424)
BALANCES AT DECEMBER 31, 2019	10,821,389	35,906,231	8,538,837	1,024,653	-	682,552	4,619,445	(1,203,707)	12,726,318	1,203,707	18,036,315	112,604,835	(12,519)	186,921,541	254,007,571
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	21,021,996	22,326,116
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,774,557)	(4,061,984)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	18,197,398	18,264,132
Cash dividends declared	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,765,324)	(8,850,969)
Early redemption of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,538,837)	(8,538,837)
Increase in noncontrolling interest without loss of control	-	-	-	-	-	-	-	-	-	-	-	-	-	2,376,784	2,376,784
Other equity reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,450,882)	(2,114,599)
Effect of disposal group classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	394,197	394,197
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BALANCES AT DECEMBER 31, 2020	P10,821,389	P35,906,231	P-	P(2,058,370)	P88,616	P544,764	P2,809,263	P(1,981,713)	P12,276,947	P1,406,976	P15,056,237	P125,612,353	P(12,519)	P185,413,937	P255,538,279
See accompanying Notes to Consolidated Financial Statements.															

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	P21,586,613	P31,142,799	P25,548,033
Income (loss) before income tax from discontinued operations (Note 37)	88,001	120,272	(196,611)
Income before income tax	21,674,614	31,263,071	25,351,422
Adjustments for:			
Equity in net earnings of associates (Note 11)	(17,614,907)	(14,857,739)	(8,029,577)
Provision for losses (Notes 8 and 26)	16,883,793	2,862,442	1,454,773
Depreciation and amortization (Notes 12, 13 and 14)	5,677,820	5,235,817	4,160,956
Movement in accrued retirement benefits (Note 23)	(583,714)	(1,153,690)	1,133,427
Finance costs (Note 27)	341,467	450,841	145,457
Gain on disposal of other noncurrent assets (Notes 12, 13 and 28)	(196,019)	(829,758)	(6,086,834)
Finance income (Note 27)	(42,421)	(146,253)	(206,641)
Dividend income (Note 28)	(5,679)	(145,704)	(87,517)
Share in losses of joint venture (Notes 11 and 28)	—	44,488	62,886
Mark-to-market gain on financial assets at FVTPL (Note 28)	—	(10,018)	(17,234)
Operating income before changes in working capital	26,134,954	22,713,497	17,881,118
Decrease (increase) in:			
Financial assets at FVTPL	(10,388,944)	(2,675,012)	(4,247,368)
Receivables	38,698,806	(76,418,419)	(80,086,379)
Inventories	(978,734)	628,416	41,335
Other current assets	(7,081,387)	(899,998)	(6,533,145)
Increase (decrease) in:			
Deposit liabilities	62,272,608	92,702,273	91,880,892
Financial liabilities at FVTPL	455,620	(225,029)	127,126
Accounts payable and accrued expenses	(4,554,291)	3,878,633	750,406
Other current and noncurrent liabilities	(204,012)	17,638,100	17,865,175
Cash generated from operations	104,354,620	57,342,461	37,679,160
Income taxes paid, including creditable withholding and final taxes	(5,679,490)	(4,016,112)	(4,686,578)
Interest paid	(1,241,781)	(348,849)	(384,994)
Interest received	41,683	183,812	183,312
Dividends received (Notes 11, 22 and 28)	5,679	201,880	4,970,678
Contributions to retirement plan	—	—	(755,084)
Net cash from operating activities	97,480,711	53,363,192	37,006,494
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Financial assets at FVTOCI (Note 7)	(P169,859,472)	(P100,926,015)	(P25,601,160)
Financial assets at amortized cost	(56,130,885)	(81,024,195)	(73,040,529)
Property, plant and equipment (Note 12)	(4,879,544)	(7,324,348)	(5,153,022)
Software (Note 14)	(283,472)	(659,818)	(344,334)
Investment properties (Note 13)	(205,934)	(2,557,645)	(461,123)
Investment in joint venture and associates (Note 11)	20,707,865	8,818,578	1,534,000
Proceeds from sale of:			
Financial assets at FVTOCI (Note 7)	220,296,251	33,742,338	43,059,193
Other assets (Notes 12 and 13)	1,299,817	(810,809)	(588,684)
Advances extended to affiliates	74,934	(804)	(7)
Net cash from (used in) investing activities	11,019,560	(150,742,718)	(60,595,666)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of:			
Bill and acceptance payable (Note 17)	168,973,402	1,465,130,227	26,166,148
Short-term debts (Note 19)	1,850,000	3,100,000	2,000,000
Long-term debts (Note 19)	—	51,899,720	17,056,006
Proceeds from issuance of stocks	—	11,850,316	—
Payments of:			
Bill and acceptance payable (Note 17)	(145,443,067)	(1,422,555,288)	—
Dividends (Note 30)	(8,850,969)	(3,330,741)	(2,183,635)
Long-term debts (Note 19)	(2,826,812)	—	—
Short-term debts (Note 19)	(2,260,000)	—	(1,500,000)
Principal portion of lease liabilities	(794,735)	(775,341)	—
Stock issuance costs	—	—	(15,000,000)
Net cash from financing activities	10,647,819	105,318,893	26,538,519
NET INCREASE IN CASH AND CASH EQUIVALENTS	119,148,090	7,939,367	2,949,347
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	184,913,132	176,973,765	174,024,418
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P304,061,222	P184,913,132	P176,973,765

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES
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 Tanduary 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, 2020 and 2019, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 were authorized for issue by the Board of Directors (BOD) on March 15, 2021.

2. Summary of Significant Accounting and Financial Reporting Policies
Basis of Preparation

The consolidated financial statements have been prepared under the

historical cost basis, except for financial assets and liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (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 accompanying consolidated financial statements have been prepared under the going concern assumption. The Group believes that its businesses would remain relevant despite challenges posed by the COVID-19 pandemic. Despite the adverse impact of the COVID-19 pandemic on short-term business results, long-term prospects remain attractive.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) as issued by the Financial Reporting Standards Council (FRSC), which include the availment of the reliefs granted by the SEC under Memorandum Circulars (MC) Nos. 14-2018 and 3-2019, to defer the implementation of the following accounting pronouncements until December 31, 2020. These accounting pronouncements address the issues of PFRS 15, *Revenue from Contracts with Customers*, affecting the real estate industry. PFRSs include statements named PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by FRSC.

Deferral of the following provisions of Philippine Interpretations Committee (PIC) Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry

- Assessing if the transaction price includes a significant financing component (as amended by PIC Q&A 2020-04);
- Treatment of land in the determination of the percentage-of-completion (POC);
- Treatment of uninstalled materials in the determination of the POC (as amended by PIC Q&A 2020-02); and
- Accounting for Common Usage Service Area (CUSA) charges.

Items b and c were already implemented by the Group prior to the issuance of the PIC Q&A 2018-12 and the Group continued its accounting treatment despite the deferral mentioned.

Deferral of the adoption of PIC Q&A 2018-14: Accounting for Cancellation of Real Estate Sales (as amended by PIC Q&A 2020-05)

The details and the impact of the adoption of the above financial reporting reliefs are discussed in the *Future Changes in Accounting Policy* section.

Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	2020		2019		2018		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Distilled Spirits							
Tanduary 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
Tanduary 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

(Forward)

	Percentage of Ownership						Country of Incorporation
	2020		2019		2018		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Waterich Resources Corp.	-	99.9	-	99.9	-	99.9	Philippines
Packageworld, Inc.	-	99.9	-	99.9	-	99.9	Philippines
AB Nutribev Corp.	-	99.9	-	99.9	-	99.9	Philippines
Asia Pacific Beverage Pte. Ltd. (APB Singapore)	-	99.9	-	99.9	-	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited (APB Myanmar) ⁽²⁾	-	90.0	-	90.0	-	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	97.7	-	97.7	-	97.7	-	Philippines
Fortune Tobacco Corporation (FTC)	82.7	16.9	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	100.0	-	100.0	-	100.0	-	Philippines
Paramount Landequities, Inc. (PLI) and Subsidiaries	100.0	-	100.0	-	100.0	-	Philippines
Eton Properties Philippines, Inc. (Eton)	-	99.6	-	99.6	-	99.6	Philippines
Belton Communities, Inc. (BCI)	-	99.6	-	99.6	-	99.6	Philippines
Eton City, Inc. (ECI)	-	99.6	-	99.6	-	99.6	Philippines
FirstHomes, Inc. (FHI)	-	99.6	-	99.6	-	99.6	Philippines
Eton Properties Management Corporation (EPMC)	-	99.6	-	99.6	-	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) ⁽³⁾	80-100	-	80-100	-	80-100	-	Various
Philippine National Bank (PNB) and Subsidiaries ⁽⁴⁾	-	56.5	-	56.5	-	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	-	56.5	-	56.5	-	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	-	56.5	-	56.5	-	56.5	Philippines
PNB Forex, Inc.	-	56.5	-	56.5	-	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	-	56.5	-	56.5	-	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen)	-	56.5	-	56.5	-	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	-	56.5	-	56.5	-	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	-	56.5	-	56.5	-	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	-	56.5	-	56.5	-	56.5	USA
PNB RCI Holding Co. Ltd.	-	56.5	-	56.5	-	56.5	USA
PNB Remittance Co. (Canada)	-	56.5	-	56.5	-	56.5	Canada
PNB Europe PLC	-	56.5	-	56.5	-	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	-	56.5	-	56.5	-	56.5	Hong Kong
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	-	50.8	-	50.8	-	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	-	50.8	-	50.8	-	50.8	Philippines
PNB Savings Bank	-	56.5	-	56.5	-	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	-	56.5	-	56.5	-	56.5	United Kingdom
Allied Commercial Bank (ACB)	-	55.9	-	55.9	-	55.9	Republic of China
Allianz-PNB Life Insurance, Inc. (APLI) (formerly PNB LII)	-	44.0	-	44.0	-	44.0	Philippines
Allied Leasing and Finance Corporation (ALFC)	-	57.2	-	57.2	-	57.2	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	-	51.0	-	51.0	-	51.0	Hong Kong
ACR Nominees Limited	-	51.0	-	51.0	-	51.0	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	-	27.8	-	27.8	-	27.8	USA
Mabuhay Global Holding Company Pte. Ltd. (MGHCPL) ⁽⁵⁾	100.0	-	100.0	-	100.0	-	Singapore
Mabuhay Digital Technologies, Inc. (MDTI)	-	100.0	-	100.0	-	100.0	Philippines
Mabuhay Digital Philippines, Inc. (MDPI)	-	100.0	-	100.0	-	100.0	Philippines
Asia's Emerging Dragon Corporation	60.0	40.0	60.0	40.0	60.0	40.0	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, 2020, 2019 and 2018, 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⁾ Incorporated on May 17, 2018, MGHCPL holds direct ownership interest in MDTI, incorporated on September 28, 2018, to offer shared services for technology infrastructure across the Group, and MDPI, incorporated on November 7, 2018 to engage business of electronic money, including payment and remittance services.

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.

Business Combination and Goodwill

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

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

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

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

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

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

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

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

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

Common control business combinations

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

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

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

Noncurrent Assets and Disposal Group Held for Sale and Discontinued Operations

The Group classifies noncurrent assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. As such, noncurrent assets and disposal groups are measured at the lower of their carrying amounts and fair value less costs to sell (i.e., the incremental costs directly attributable to the sale, excluding finance costs and income taxes).

The Group regards the criteria for held for sale classification as met only when:

- the Group has initiated an active program to locate a buyer;
- the Group is committed to the plan to sell the asset or disposal group, which should be available for immediate sale in its present condition;
- the sale is highly probable (i.e, expected to happen within one year from the date of the classification); and
- actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Group presents separately the assets and liabilities of disposal group classified as held for sale in the consolidated statement of financial position.

The Group classifies a disposal group as discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

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

The Group excludes discontinued operations from the results of continuing operations and presents them as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.

If the above criteria are no longer met, the Group ceases to classify the asset or disposal group as held for sale. In such cases, the Group measures such asset or disposal group at the lower of its:

- carrying amount before it was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had it not been classified as such; and
- recoverable amount at the date of the subsequent decision not to sell.

The Group also amends financial statements for the periods since classification as held for sale if the asset or disposal group that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. Accordingly, for all periods presented, the Group reclassifies and includes in income from continuing operations the results of operations of the asset or disposal group previously presented in discontinued operations.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the amendments to existing standards effective as at January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these amendments to existing standards did not have an impact on the consolidated financial statements of the Group.

• Amendments to PFRS 3, *Business Combinations: Definition of a Business*

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, the amendments clarify that a business can exist without including all of the inputs and processes needed to create outputs.

• Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

• Amendments to Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material*

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

• Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

• Amendments to PFRS 16, *COVID-19 Related Rent Concessions*

The amendments provide relief to lessees from applying PFRS 16, *Leases*, guidance on lease modification accounting for rent concessions arising as a direct consequence of the Coronavirus Disease 2019 (COVID-19) pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under PFRS 16, if the change were not a lease modification. The amendments had no significant impact on the consolidated financial statements of the Group.

Future Changes in Accounting Policy

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, 2021

• Amendments to PFRS 9, *Financial Instruments*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts*, and PFRS 16, *Leases: Interest Rate Benchmark Reform – Phase 2*

The amendments provide the following temporary reliefs, which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the ‘separately identifiable’ requirement when an RFR instrument is designated as a hedge of a risk component

The amendments also require to disclose information about the nature and extent of risks to which an entity is exposed arising from financial instruments subject to IBOR reform, how the entity manages those risks, their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

Effective beginning on or after January 1, 2022

• Amendments to PFRS 3, *Business Combinations: Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. An exception to the recognition principle of PFRS 3 was also added to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or Philippine Interpretation IFRIC 21, *Levies*, if incurred separately. The amendments apply prospectively.

• Amendments to PAS 16, *Property, Plant and Equipment: Proceeds Before Intended Use*

The amendments prohibit entities to deduct from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead,

entities should recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

• Amendments to PAS 37, *Onerous Contracts: Cost of Fulfilling a Contract*

The amendments apply a “directly related cost approach” to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. Under this approach, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments apply to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

• Annual Improvements to PFRS Standards 2018-2020 Cycle

- Amendments to PFRS 1, *Subsidiary as a first-time adopter*
- Amendments to PFRS 9, *Fees in the ‘10 per cent’ test for derecognition of financial liabilities*
- Amendments to PFRS 16, *Lease incentives*
- Amendments to PAS 41, *Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

• PFRS 17, *Insurance Contracts*

PFRS 17 is comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. PFRS 17 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. PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted but only if the entity also applies PFRS 9, *Financial Instruments*, and PFRS 15, *Revenue from Contracts with Customers*.

• Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify: (a) what is meant by a right to defer settlement; (b) that a right to defer must exist at the end of the reporting period; (c) that classification is unaffected by the likelihood that an entity will exercise its deferral right; and (d) that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments are applied retrospectively.

Deferred effectivity

• PFRS 10, *Consolidated Financial Statements*, and PAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)

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 postponed the original effective date of January 1, 2016 of the said amendments until

the International Accounting Standards Board has completed 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.

• Deferral of Certain Provisions of PIC Q&A 2018-12, PFRS 15 Implementation Issues Affecting the Real Estate Industry (as amended by PIC Q&As 2020-02 and 2020-04)

On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some PFRS 15 implementation issues affecting the real estate industry. On October 25, 2018 and February 8, 2019, the Philippine SEC issued SEC MC No. 14-2018 and SEC MC No. 3-2019, respectively, providing relief to the real estate industry by deferring the application of certain provisions of this PIC Q&A for a period of three years until December 31, 2020. On December 15, 2020, the Philippine SEC issued SEC MC No. 34-2020 which further extended the deferral of certain provisions of this PIC Q&A until December 31, 2023. A summary of the PIC Q&A provisions covered by the SEC deferral and the related deferral period follows:

	Deferral Period
1. Assessing if the transaction price includes a significant financing component as discussed in PIC Q&A 2018-12-D (as amended by PIC Q&A 2020-04)	Until December 31, 2023
2. Treatment of land in the determination of the POC discussed in PIC Q&A 2018-12-E	Until December 31, 2023
3. Treatment of uninstalled materials in the determination of the POC discussed in PIC Q&A 2018-12-E (as amended by PIC Q&A 2020-02)	Until December 31, 2020
4. Accounting for CUSA Charges discussed in PIC Q&A No. 2018-12-H	Until December 31, 2020

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

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

In November 2020, the PIC issued the following Q&As which provide additional guidance on the real estate industry issues covered by the above SEC deferrals:

- PIC Q&A 2020-04, which provides additional guidance on determining whether the transaction price includes a significant financing component
- PIC Q&A 2020-02, which provides additional guidance on determining which uninstalled materials should not be included in calculating the POC

After the deferral period, real estate companies would have to adopt PIC Q&A No. 2018-12 and any subsequent amendments thereto retrospectively or as the 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:

- 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 2020, 2019 and 2018. Currently, any

significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.

- The Group is acting as a principal for the provision of air-conditioning services, common usage services and administration and handling services. This would have resulted to the gross presentation of the related revenue and the related 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, 2020, 2019 and 2018.

The above would have impacted the cash flows from operations and cash flows from financing activities for all years presented.

• Deferral of PIC Q&A 2018-14, *Accounting for Cancellation of Real Estate Sales* (as amended by PIC Q&A 2020-05)

On June 27, 2018, PIC Q&A 2018-14 was issued providing guidance on accounting for cancellation of real estate sales. Under SEC MC No. 3-2019, the adoption of PIC Q&A No. 2018-14 was deferred until December 31, 2020. After the deferral period, real estate companies will adopt PIC Q&A No. 2018-14 and any subsequent amendments thereto retrospectively or as the SEC will later prescribe.

On November 11, 2020, PIC Q&A 2020-05 was issued which supersedes PIC Q&A 2018-14. This PIC Q&A adds a new approach where the cancellation is accounted for as a modification of the contract (i.e., from non-cancellable to being cancellable). Under this approach, revenues and related costs previously recognized shall be reversed in the period of cancellation and the inventory shall be reinstated at cost. PIC Q&A 2020-05 will have to be applied prospectively from approval date of the Financial Reporting Standards Council which was November 11, 2020.

The Group availed of the SEC relief to defer the adoption of this PIC Q&A until December 31, 2020. Currently, the Group records the repossessed inventory at cost. The Group is still evaluating the approach to be availed among the existing options. Had the relief not been adopted and the current practice would be different from the approach to be implemented, this could have impacted the recording of revenue, cost of sales, valuation of repossessed inventory and gain or loss from repossession in 2020.

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2020 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 the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that these transactions take 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 Group measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has both bid and ask prices, the Group uses the price within the bid-ask spread, which is the most representative of fair value in the circumstances.

For nonfinancial assets, the Group measures their fair value considering a market participant's ability to generate economic benefits by using an 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. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirements.

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 ('solely payments of principal and interest' or 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.

Financial assets at FVTPL

Financial assets at FVTPL include the following:

- Financial assets held for trading - those acquired for the purpose of selling or repurchasing in the near term;
- Derivative instruments - contracts entered into by the Group (such as currency forwards, currency swaps, interest rate swaps and warrants) as a service to customers and as a means of reducing or managing their respective financial risk exposures, as well as for trading purposes;
- Financial assets that are not SPPI, irrespective of the business model; or
- Debt financial assets designated upon initial recognition at FVTPL - those assets where the Group applied the fair value option at initial recognition if doing so eliminates or significantly reduces an accounting mismatch

The Group carries financial assets at FVTPL in the consolidated statement of financial position at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group recognizes any gains or losses arising from changes in fair values of financial assets at FVTPL directly in the consolidated statement of income under 'Trading and investment securities gains - net', except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'.

Financial assets at FVTOCI

Financial assets at FVTOCI include debt and equity securities, which are subsequently measured at fair value. The Group recognizes the unrealized gains and losses arising from the fair valuation of financial assets at FVTOCI, net of tax, in the consolidated statement of comprehensive income as 'Net change in unrealized gain (loss) on financial assets at FVTOCI, net of tax'.

Debt securities at FVTOCI are those that meet both of the following conditions:

- the asset is held within a business model whose objective is to hold the financial asset in order to both collect contractual cash flows and sell the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

The Group reports the effective yield component of debt securities at FVTOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVTOCI, in the consolidated statement of income. When the debt securities at FVTOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain (loss) - net' in the consolidated statement of income. The Group recognizes the expected credit losses (ECL) arising from impairment of such financial assets in OCI with a corresponding charge to 'Provision for impairment, credit and other 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. The Group recognizes the dividends earned on holding the equity securities at FVTOCI in the consolidated statement of income when the right to payment has been established. Gains and losses on disposal of these equity securities at FVTOCI are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the OCI is reclassified to 'Retained earnings' or any other appropriate equity account upon disposal. The Group does not subject equity securities at FVTOCI to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions:

- the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and

- the contractual terms of the financial asset 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 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Investment securities at amortized cost', and 'Loans and receivables'.

The Group subsequently measures financial assets at amortized cost using the effective interest method of amortization, less allowance for credit losses. The Group includes the amortization in 'Interest income', and the ECL arising from impairment of such financial assets in 'Provision for impairment, credit and other losses' in the consolidated statement of income.

Financial liabilities at amortized cost

The Group classifies issued financial instruments or their components which are not designated at FVTPL, as financial liabilities at amortized cost under 'Deposit liabilities', 'Bills and acceptances payable', 'Bonds payable' or other appropriate financial liability accounts. The substance of the contractual arrangement for these instruments 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.

The Group subsequently measures financial liabilities at amortized cost using the effective interest method of amortization.

Repurchase and reverse repurchase agreements

The Group does not derecognize from the statement of financial position securities sold under agreements to repurchase at a specified future date ('repos'). Instead, the Group recognizes the corresponding cash received, including accrued interest, as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, the Group does not recognize securities purchased under agreements to resell at a specified future date ('reverse repos'). The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The Group recognizes the corresponding cash paid, including accrued interest, as 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.

Reclassification of financial instruments

Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in the business models for managing these financial assets. Reclassification of financial liabilities is not allowed.

Derecognition of Financial Assets and Liabilities

Financial assets

The Group derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) 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 Group recognizes the asset only to the extent of its 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 assets are written off either partially or in their entirety only when the Group has stopped pursuing recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous Income' in the consolidated statements of income.

Financial liabilities

The Group derecognizes a financial liability 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, the Group treats such an exchange or modification as a derecognition of the original liability and recognition of a new liability, and Group recognizes the difference in the respective carrying amounts in the consolidated statement of income.

Impairment of Financial Assets

ECL methodology

The Group's loss impairment method on financial instruments applies 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. 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 instrument since origination (12-month ECL). Otherwise, if an SICR is observed, then the Group extends its ECL estimation until the end of the life of the financial instrument (Lifetime ECL). 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.

Staging assessment

The Group categorizes financial instruments subject to the ECL methodology into three stages:

- Stage 1 - comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Group recognizes 12-month ECL for Stage 1 financial instruments.
- Stage 2 - comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Group recognizes Lifetime ECL for Stage 2 financial instruments.
- Stage 3 - comprised of financial instruments which have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on their estimated future cash flows. The Group recognizes Lifetime ECL for Stage 3 (credit-impaired) financial instruments.

Definition of "default" and "cure"

The Group considers default to have occurred when:

- the obligor is past due for more than 90 days on any material credit obligation to the Group; or
- 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.

The Group no longer considers an instrument to be 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 SICR

At each reporting date, the Group assesses 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 both the qualitative and

quantitative elements, as well as if the loan or credit exposure is unpaid for at least 30 days ("backstop").

The Group assesses SICR on loans or credit exposures having potential credit weaknesses based on current and/or forward-looking information that warrant management's close attention. Such weaknesses, if left uncorrected, may affect the repayment of these exposures. The loan or credit exposure also exhibits SICR 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.

The Group looks at the quantitative element through statistical models or credit ratings process or scoring process that captures certain information, which the Group considers as relevant in assessing changes in credit risk. The Group also looks 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.

Transfer between stages

The Group transfers credit exposures from Stage 1 to Stage 2 if there is an SICR from initial recognition date. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, then the Group reverts them to Stage 1.

The Group transfers credit exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both of the following indicators:

- quantitative - characterized by payments made within an observation period; and
- qualitative - pertain to the results of assessment of the borrower's financial capacity.

Generally, the Group considers that 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, which may 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 modifications are considered by the Group as substantial based on qualitative factors, the loan is derecognized as discussed under Financial Instruments – Derecognition.

If a loan or credit exposure has been renegotiated or modified without this resulting in derecognition, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded, based on the change in cash flows discounted at the loan's original effective interest rate (EIR). The Group also assesses whether there has been a SICR by comparing the risk of default at reporting date based on modified terms, and the risk of default at initial recognition date based on original terms. Derecognition decisions and classification between Stages 2 and 3 are determined on a case-by-case basis.

Purchased or originated credit-impaired loans

The Group considers a loan 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 recognizes 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.
- Loss-given-default (LGD) - an estimate of the loss arising in case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.
- 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.
- Discount rate - represents the rate to be used to discount an expected loss to present value at the reporting date using the original EIR determined at initial recognition.

In measuring ECL, the Group considers forward-looking information depending on the credit exposure. The Group applies experienced credit judgment, which is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported. Forward-looking macroeconomic information and scenarios 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, among others;
- 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 or losses.

The Group also measures ECL by evaluating a range of possible outcomes and using reasonable and supportable pieces of information that are available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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.

Offsetting of Financial Instruments

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

Investments in Associates and Joint Ventures

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

Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associates and joint ventures. The Group's share in the associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in the associates' and joint ventures' equity reserves is recognized directly in other

comprehensive income. When the Group's share of losses in the associate and joint venture equals or exceeds its interest in the associate and joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture. Profits and losses resulting from transactions between the Group and the associates and joint ventures are eliminated to the extent of the interest in the associates and joint ventures.

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

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

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

Other Current Assets

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

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

Property, Plant and Equipment

Property, plant and equipment, other than land and land improvements, plant buildings and building improvements, and machineries and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value.

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

All other repair and maintenance costs are expensed in the consolidated statement of income as incurred. Borrowing costs incurred during the

construction of a qualifying asset is likewise included in the initial cost of property, plant and equipment.

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

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:

	Estimated useful life
ROU assets - branch premises	1 - 25
ROU assets - land	10 - 40
ROU assets - warehouse	5 - 15
ROU assets - warehouse equipment	5 - 15

ROU assets are subject to impairment.

Investment Properties

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

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

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

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

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

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

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

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.

Other Properties Acquired

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

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

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

Intangible Assets

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

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

Software costs

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

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

Impairment of Noncurrent Nonfinancial Assets

Property, plant and equipment, investment properties, other properties, investments in associates and joint ventures, and software costs

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

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

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

Goodwill

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

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

Revenue

Revenue is recognized 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.

Share-based Payment

Employees of the Group receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments. The Group determines the cost of equity-settled transactions at fair value at the date when the grant is made, and recognizes as 'Compensation and fringe benefits', together with a corresponding increase in equity ('Other equity reserves'), over the period in which the service is fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects to the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in the cumulative expense recognized as at the beginning and end of the 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

• Right-of-use assets

At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Group recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Subsequent to initial recognition, the Group measures the right-of-use assets at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The Group presents the right-of-use assets in 'Property, plant and equipment' and subjects it to impairment in line with the Group's policy on impairment of nonfinancial assets.

• 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 discounted using the Group's incremental borrowing rate, which 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 lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any 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 the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

After the commencement date of the lease, the Group measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in 'Cost of banking services'), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

• Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below P250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.

Group as a lessor

For finance leases where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item, the Group recognizes a lease receivable in the statement of financial position at an amount equivalent to the net investment (asset cost) in the lease. The Group includes all income resulting from the receivable in 'Interest income on loans and receivables' in the statement of income.

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.

In operating leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Group recognizes rental income on a straight-line basis over the lease terms. The Group adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease term on the same basis. The Group recognizes contingent rents as revenue in the period in which they are earned.

Policies applicable 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:

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

Where a reassessment was made, the Group commenced or ceased its lease accounting from the date when the change in circumstances gave rise to the reassessment for first three scenarios above, and at the date of renewal or extension period for last scenario above.

Group as lessee

At the inception of the lease, the Group capitalized finance leases, which are lease arrangements that transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The Group included the amounts capitalized in 'Property, plant and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. The Group apportioned the lease payments between the finance charges (recorded in 'Interest expense on bills payable and other borrowings') and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability.

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

For operating leases where the lessor retained substantially all the risks and rewards of ownership of the asset, the Group recognized the lease payments as expense in the statement of income on a straight-line basis over the lease term.

Group as lessor

Policies for lessor accounting under PAS 17 are substantially similar with those under PFRS 16, as described above.

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

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*

The banking segment accrues fees earned for the provision of services over a period of time. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

b) *Bancassurance fees*

The banking segment recognizes non-refundable access fees 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*

The banking segment recognizes the 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, only upon completion of the underlying transaction. For fees or components of fees that are linked to a certain performance, the banking segment recognizes revenue 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.

The banking segment recognizes loan syndication fees as revenue 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.

Interchange fee and revenue from rewards redeemed

The banking segment takes up as income the interchange fees 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. 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 banking segment defers the amount allocated to the loyalty program and recognizes revenue only when the loyalty points are redeemed or the likelihood of the credit cardholder redeeming the loyalty points becomes remote. The banking segment includes the deferred balance under ‘Other liabilities’ in the consolidated statement of financial position.

Commissions on credit cards

The banking segment recognizes commissions earned as revenue 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.

Other income

The banking segment recognizes income from sale of properties upon completion of the earning process upon transfer of control and when the collectability of the sales price is reasonably assured.

The following are revenue streams of the banking segment, which are covered by accounting standards other than PFRS 15:

Interest income

Interest on interest-bearing financial assets at FVTPL and held-for-trading investments is recognized based on contractual rate. Interest on financial instruments measured at amortized cost and FVTOCI are recognized based on effective interest method of accounting to calculates the amortized cost of a financial asset or a financial liability and allocate the interest income or interest expense.

The banking segment records interest income 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. In calculating EIR, the banking segment considers all contractual terms of the financial instrument (for example, prepayment options), and 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 banking segment adjusts the carrying amount of the financial instrument through 'Interest income' in the consolidated statement of income based on the original EIR.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, 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.

Commitment fees

The banking segment defers the commitment fees for loans that are likely to be drawn down (together with any incremental costs) and includes them as part of the EIR of the loan. These are amortized using EIR and recognized as revenue over the expected life of the loan.

Commissions on installment credit sales

The banking segment records the purchases by the credit cardholders, collectible on installment basis, at the cost of the items purchased plus certain percentage of cost. The banking segment recognizes the excess over cost as 'Unearned and other deferred income', which is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The banking segment amortizes and recognizes as revenue the unearned and other deferred income over the installment terms using the effective interest method.

Insurance premiums and commissions on reinsurance

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. The banking segment recognizes premiums from short-duration insurance contracts and reinsurance commissions 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 banking segment recognizes in the consolidated statement of income for the period the net changes in provisions for unearned premiums and deferred reinsurance premiums.

Dividend income

The banking segment recognizes dividend income when the Group's right to receive payment is established.

Trading and investment securities gains - net

The banking segment recognizes in 'Trading and investment securities gains - net' the 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 debt securities at FVTOCI.

Rental income

The banking segment accounts for rental income arising on leased properties on a straight-line basis over the lease terms of ongoing leases, which is recorded in the consolidated statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed

The banking segment recognizes income on direct financing leases and receivables financed using the effective interest method and any unearned discounts are shown as deduction against 'Loans and receivables'.

Unearned discounts are amortized over the term of the note or lease using the effective interest method and 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.

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, which is the risk of a possible future change in one or more of a specified interest rate, security or commodity price, foreign exchange rate, a credit rating or credit index, or other variables. 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 has expired. Investment contracts, however, can be reclassified to insurance contracts after inception if the insurance risk becomes significant. All non-life insurance products issued by the Group meet the definitions of insurance contract.

Financial Guarantees and Undrawn Loan Commitments

The Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

Financial guarantees are contracts that require the Group as issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The Group initially recognizes financial guarantees on trade receivables at fair value under 'Bills and acceptances payable' or 'Other liabilities' in the consolidated statement of financial position. Subsequent to initial recognition, the Group measures these financial guarantees at the higher of:

- the initial fair value less any cumulative amount of income or amortization recognized in the consolidated statement of income; and
- the ECL determined under PFRS 9.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the consolidated statement of financial position.

The Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in 'Allowance for credit losses' under 'Loans and receivables'.

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 'Loans and 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 will be withheld and included as part of '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 using the 24th method, except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to 'Service fees and commission expense' in the consolidated statement of income.

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

The Group recognizes insurance contract liabilities when contracts are entered into and premiums are charged.

Claims provisions and incurred but not reported (IBNR) losses

The Group estimates outstanding claims provisions based on the ultimate cost of all claims incurred but not settled at the reporting date, 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 Group does not discount the liability for the time value of money and includes any provision for IBNR claims. The Group does not also recognize provision for equalization or catastrophic reserves.

The Group derecognizes the liability when the contract is discharged or cancelled, and has expired.

Provision for unearned premiums

The Group defers as 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. The Group accounts for the portion of the premiums written that relate to the unexpired periods of the policies at the reporting date as provision for unearned premiums and presented under 'Insurance contract liabilities' as part of 'Other liabilities' in the consolidated statement of financial position. Any change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. The Group makes further provisions to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Liability adequacy test

At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. 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

The Group excludes from these financial statements the assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, 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

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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.

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 goods*
Revenue from sale of goods is recognized at a point in time, once the goods are sold and delivered.

- *Sale of commercial bottles*
Revenue from sale of commercial bottles is recognized at a point in time, once goods are sold and delivered.

- *Revenue from services and tolling fees*
Revenue from services and tolling fees is recognized by the Group at a point in time when the services have been rendered.

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

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.

Rental income

Rental income under non-cancellable leases of investment properties is recognized in the consolidated statement of income on a straight-line basis over the lease term or based on the terms of the lease contract or certain percentage of the gross revenue of the tenants, as applicable.

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 real estate sales recognized in the 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 at point in time or 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

Real estate inventories consist of subdivision land, residential houses and lots and condominium units for sale and development. These are properties acquired or being constructed for sale in the ordinary course of business rather than to be held for rental or capital appreciation. These are held as inventory and are measured at the lower of cost and net realizable value (NRV).

Cost includes: (a) acquisition cost of subdivision land; (b) amounts paid to contractors for construction and development of subdivision land, residential houses and lots and condominium units; (c) planning and design costs, cost of site preparation, professional fees for legal services, 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.

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:

Classification of financial assets

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.

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.

As a second step, the Group performs business model assessment to reflect how financial assets are managed in order to generate net cash inflows 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 nil and P8.5 billion as equity as of December 31, 2020 and 2019, respectively (see Note 30).

Recognition of deferred income tax assets

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast and tax strategies. The Group takes into consideration the loan portfolio and deposit growth rates. As the COVID-19 pandemic affected the Group's normal operations, the Group reassessed its business plan, as well as tax strategies, in the next three to five years, considering various economic scenarios including recovery outlook, effect of the pandemic on specific industries and trade, travel restrictions, and government relief efforts. Refer to Note 29.

Determination of functional currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires the Group to use its judgment to determine the functional currency of the Group, including its foreign operations, such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to each entity or reporting unit.

In making this judgment, the Group considers the following:

- the currency that mainly influences prices for financial instruments and

services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);

- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

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*

The Group determined that an approved purchase order related to a signed marketing and distributorship agreement qualifies as a contract provided that each of the party's rights regarding the goods to be transferred is clearly identified including the product specification and payment terms.

- *Sale of commercial bottles*

The Group determined that an approved purchase order with terms clearly identified including the product specification and payment terms qualifies as a contract.

The Group also considers the probability that it will be able to collect the consideration to which it will be entitled in exchange for the goods sold or services rendered in determining if a contract exists.

b.) Determining the method to estimate variable consideration and assessing the constraint

The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will be subjected to constraint.

Factors such as the following are considered:

- a. high susceptibility to factors outside the Group's influence;
- b. timing of the resolution of the uncertainty, and
- c. having a large number and broad range of possible outcomes.

Contracts from sale of goods and commercial bottles allow the customer to return spoiled or damaged goods which will be segregated and replaced. No adjustment to the amount originally billed to the customer. The right of return will be constrained since the amount of consideration is highly susceptible to factors outside of the Group's influence and the contract has a large number and broad range of possible consideration amounts.

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).

Classification of leases (applicable prior to January 1, 2019)

In arrangements that are, or contain, leases, the Group determines based on an evaluation of the terms and conditions of the arrangements whether or not the lessor retains all the significant risks and rewards of ownership of the properties which are leased out.

In classifying such arrangements as operating leases, the Group considers the following:

- 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;
- the present value of the minimum lease payments is substantially lower than the fair value of the leased asset;
- the losses associated with any cancellation of the lease are borne by the lessor; and
- the lease term is not for the major part of the asset's economic useful life.

When the above terms and provisions do not apply, the Group classifies the lease arrangements as finance leases.

Determination of lease term of contracts with renewal and termination options - Group as a lessee (applicable effective January 1, 2019)

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment 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 that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

Determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates

Upon adoption of the Philippine Interpretation IFRIC-23, 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

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, the Group uses valuation techniques and mathematical models. The Group derives the inputs to these models from observable markets where possible, otherwise, 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.

Contingencies

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 38).

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 interdependencies.

The Group considers the following elements of the ECL models, among others, as significant accounting judgments and estimates:

- 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.
- Determination of expected life of the financial asset and expected recoveries from defaulted accounts.
- 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.

The ongoing COVID-19 outbreak is widely expected to adversely affect the global economy and financial markets for the foreseeable future. The economic impact of COVID-19 depends on the mutation of the virus and the response of the authorities and the global community. The situation continues to evolve and the impact on the global and Philippine economy and the related government responses and measures depend on future developments that are highly uncertain. In light of the COVID-19 pandemic, the Group reviewed the conduct of its impairment assessment and ECL methodologies. The Group revisited the segmentation of its portfolio based on industry vulnerability and resiliency assessment. The Group also reassessed the framework for macroeconomic overlay, incorporating pandemic scenarios to ensure that changes in economic conditions are captured in the ECL calculations. In assessing forecast conditions to estimate the PDs and LGDs, the Group also considered the significant government measures and plans to support affected and/or vulnerable entities, as well as the impact on the collateral values.

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.

Present value of lease liabilities (applicable effective January 1, 2019)

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

The carrying amount of lease liabilities as of December 31, 2020 and 2019 is disclosed in Note 38.

Present value of retirement obligation

The Group determines the cost of defined benefit pension plan and other post-employment benefits using actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The Group reviews all assumptions at each reporting date.

The discount rate is based on zero-coupon yield of government bonds with remaining maturity approximating the estimated average duration of benefit payment. Future salary increases are based on the Group's policy considering the prevailing inflation rate. The mortality rate used is based on publicly available mortality table modified accordingly with estimates of mortality improvements. The employee turnover is based on the Group's most recent experience.

The fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets 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.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 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 P0.6 billion, P1.4 billion and P1.7 billion and cost of real estate sales amounting to P0.2 billion, P0.6 billion and P1.2 billion in 2020, 2019 and 2018, respectively (see Note 24).

Valuation of insurance contracts

For insurance contracts, the Group estimates both for the expected ultimate cost of claims reported and 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. In estimating the cost of notified and IBNR claims, the Group uses past claims settlement trends as primary technique to predict future claims settlement trends. At each reporting date, the Group assesses the estimates for adequacy and charges to provision any changes made to the estimates.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in 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, 2020 and 2019 amounted to P11.9 billion and P11.4 billion, respectively. Certain materials and supplies amounting to P1.3 billion and P0.8 billion as of December 31, 2020 and 2019, respectively, are carried at NRV (see Note 9).

Valuation of property, plant and equipment under revaluation basis

The Group's land and land improvements, plant buildings and building improvements, and machineries and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by independent appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the end of reporting period.

Property, plant and equipment at appraised values amounted to P59.9 billion and P59.8 billion as of December 31, 2020 and 2019, 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, plant 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 2020 and 2019, 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, 2020 and 2019 amounted to P29.7 billion and P29.1 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2020 and 2019 amounted to P9.9 billion and P10.5 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount

The Group assesses impairment on its investments in joint ventures and associates whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the Group considers the following triggers for an impairment review on its investments in joint ventures and associates:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.

The Group also assesses impairment on its property, plant and equipment, investment properties and chattel properties, and intangibles with finite useful lives and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value-in-use (VIU), which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The VIU calculation is most sensitive to the following assumptions: production volume, price, exchange rates, capital expenditures, and long-term growth-rates.

The carrying values of the Group's investments in joint ventures and associates, property, plant and equipment, investment properties, intangible assets, and other nonfinancial assets are disclosed in Notes 11, 12, 13 and 14, respectively.

Assessment of whether the Company's purchase of fixed assets and inventories from AB HPI constitute an acquisition of business or asset

The Company determined that the purchase of fixed assets and inventories from AB HPI constitutes an acquisition of group of assets since a) the Company did not acquire control over any processes needed to manufacture the existing products of AB HPI nor did it acquire an organized workforce; and b) the Company did not obtain any carryover rights to produce and sell the existing products of AB HPI as of December 31, 2020.

Refer to Note 11 for the details of the purchase of fixed assets and inventories from AB HPI.

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 17.4% and 2.5% as of December 31, 2020, respectively, and 19.7% and 4.0% as of December 31, 2020 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 73%, 79% and 85% of the segment's total revenue in 2020, 2019 and 2018, 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, 2020:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
<i>(In Thousands)</i>							
Segment revenue:							
External customers	P54,800,902	P25,000,110	P12,227,532	P-	P2,399,390	P-	P94,427,934
Inter-segment	172,341	31,674	1,052,637	-	-	(1,256,652)	-
	54,973,243	25,031,784	13,280,169	-	2,399,390	(1,256,652)	94,427,934
Cost of goods sold and services	12,113,434	21,361,215	9,829,697	-	706,116	(1,151,598)	42,858,864
Gross profit	42,859,809	3,670,569	3,450,472	-	1,693,274	(105,054)	51,569,070
Equity in net earnings of associates and joint ventures	88,476	-	35,575	17,106,456	-	384,400	17,614,907
	42,948,285	3,670,569	3,486,047	17,106,456	1,693,274	279,346	69,183,977
Selling expenses	-	1,030,449	988,609	-	32,056	-	2,051,114
General and administrative expenses	44,655,737	765,772	1,335,837	172,095	710,002	257,825	47,897,268
Operating income	(1,707,452)	1,874,348	1,161,601	16,934,361	951,216	21,521	19,235,595
Foreign exchange gains - net	919,555	(43,043)	(21,535)	(97,786)	(4,293)	(5,803)	747,095
Finance income	-	1,146	21,390	56,642	19,847	(56,604)	42,421
Finance costs	-	(97,293)	(185,900)	-	(272,686)	214,412	(341,467)
Others - net	1,684,400	(203,438)	(74,511)	31,551	469,738	(4,771)	1,902,969
Income before income tax	896,503	1,531,720	901,045	16,924,768	1,163,822	168,755	21,586,613
Provision for (benefit from) income tax	(1,798,238)	414,164	310,299	31,448	361,721	8,686	(671,920)
Segment profit from:							
Continuing operations	2,694,741	1,117,556	590,746	16,893,320	802,101	160,069	22,258,533
Discontinued operations	67,583	-	-	-	-	-	67,583
	P2,762,324	P1,117,556	P590,746	P16,893,320	P802,101	P160,069	P22,326,116
Segment profit attributable to:							
Equity holders of the Company	P2,751,489	P1,103,128	P583,793	P16,893,320	P802,101	(P1,111,835)	P21,021,996
Non-controlling interests	10,835	14,428	6,953	-	-	1,271,904	1,304,120
Depreciation and amortization expense	3,047,381	564,556	1,613,481	50,702	404,088	(2,389)	5,677,819

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	P644,182,968	P15,205,078	P17,743,633	P5,627,322	P8,832,453	(P6,784,029)	P684,807,425
Noncurrent assets	599,009,724	9,263,659	16,304,213	18,062,891	22,989,484	2,685,058	668,315,029
	P1,243,192,692	P24,468,737	P34,047,846	P23,690,213	P31,821,937	(P4,098,971)	P1,353,122,454
Liabilities:							
Current liabilities	P946,187,119	P5,042,772	P8,894,934	P296,163	P5,555,961	(P12,442,685)	P953,534,264
Noncurrent liabilities	136,649,515	769,034	1,669,777	89,023	7,624,513	(2,751,951)	144,049,911
	P1,082,836,634	P5,811,806	P10,564,711	P385,186	P13,180,474	(P15,194,636)	P1,097,584,175
Investments in associates and joint ventures	P2,310,410	P–	P56,746	P14,558,923	P–	P6,851,704	P23,777,783
Equity attributable to:							
Equity holders of the Company	157,154,782	18,643,080	23,440,873	23,305,027	18,641,464	(55,591,289)	185,413,937
Non-controlling interests	3,201,276	193,849	42,262	–	–	66,686,955	70,124,342
Additions to noncurrent assets:							
Property, plant and equipment	2,545,427	768,244	2,557,243	35,937	56,933	5,342	5,969,126
Investment properties	86,693	–	–	–	906,080	–	992,773
Short-term debts	–	400,000	4,740,000	–	–	(400,000)	4,740,000
Long-term debts	65,422,351	383,404	591,373	–	6,585,776	(3,240,260)	69,742,644

For the year ended December 31, 2019, as restated, Note 37:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	P56,522,642	P19,261,735	P15,234,051	P–	P3,132,431	P–	P94,150,859
Inter-segment	249,877	17,460	696,240	–	–	(963,577)	–
	56,772,519	19,279,195	15,930,291	–	3,132,431	(963,577)	94,150,859
Cost of goods sold and services	19,143,478	16,068,978	11,643,204	–	1,107,876	(1,161,096)	46,802,440
Gross profit	37,629,041	3,210,217	4,287,087	–	2,024,555	197,519	47,348,419
Equity in net earnings (loss) of associates and joint ventures	(97,608)	–	(725,985)	15,396,194	–	240,650	14,813,251
Selling expenses	37,531,433	3,210,217	3,561,102	15,396,194	2,024,555	438,169	62,161,670
General and administrative expenses	–	1,561,758	1,338,050	–	111,616	–	3,011,424
Operating income	28,503,520	661,940	1,248,334	205,045	807,684	169,898	31,596,421
Foreign exchange gains (losses) - net	9,027,913	986,519	974,718	15,191,149	1,105,255	268,271	27,553,825
Finance income	1,105,903	1,599	6,064	(51,889)	(2,228)	(9,484)	1,049,965
Finance costs	–	1,060	27,006	369,459	105,948	(357,220)	146,253
Others - net	–	(98,948)	(166,018)	–	(364,340)	178,465	(450,841)
Income before income tax	2,155,167	(9,900)	96,036	150,900	434,107	17,287	2,843,597
Income before income tax	12,288,983	880,330	937,806	15,659,619	1,278,742	97,319	31,142,799
Provision for income tax	2,452,307	204,549	539,567	98,530	378,358	5,324	3,678,635
Segment profit							
Continuing operations	9,836,676	675,781	398,239	15,561,089	900,384	91,995	27,464,164
Discontinued operations	101,593	–	–	–	–	–	101,593
	P9,938,269	P675,781	P398,239	P15,561,089	P900,384	P91,995	P27,565,757
Segment profit attributable to:							
Equity holders of the Company	P9,858,543	P666,507	P399,380	P15,561,089	P900,384	(P4,268,379)	P23,117,524
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
	<i>(In Thousands)</i>						
Assets:							
Current assets	P488,857,140	P12,923,043	P16,840,868	P5,180,278	P9,237,156	(P5,902,547)	P527,135,938
Noncurrent assets	665,367,850	9,193,536	15,700,574	22,718,539	22,590,537	3,123,579	738,694,615
	P1,154,224,990	P22,116,579	P32,541,442	P27,898,817	P31,827,693	(P2,778,968)	P1,265,830,553
Liabilities:							
Current liabilities	P865,580,704	P3,719,389	P7,764,522	P1,317,834	P7,743,432	(P9,464,258)	P876,661,623
Noncurrent liabilities	129,363,371	875,491	1,606,108	103,082	6,248,863	(3,035,556)	135,161,359
	P994,944,075	P4,594,880	P9,370,630	P1,420,916	P13,992,295	(P12,499,814)	P1,011,822,982
Investments in associates and joint ventures	P2,605,473	P–	P21,171	P19,193,993	P–	P5,433,641	P27,254,278
Equity attributable to:							
Equity holders of the Company	156,398,876	17,341,825	23,133,222	26,477,901	17,835,398	(54,265,681)	186,921,541
Non-controlling interests	2,882,039	179,874	37,590	–	–	63,986,527	67,086,030
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
	<i>(In Thousands)</i>						
Segment revenue:							
External customers	P40,172,558	P18,062,573	P14,125,559	P–	P3,198,735	P–	P75,559,425
Inter-segment	243,617	73,385	969,640	–	–	(1,286,642)	–
	40,416,175	18,135,958	15,095,199	–	3,198,735	(1,286,642)	75,559,425
Cost of goods sold and services	9,784,000	14,845,768	10,995,031	–	1,582,655	(1,242,052)	35,965,402
Gross profit	30,632,175	3,290,190	4,100,168	–	1,616,080	(44,590)	39,594,023
Equity in net earnings (loss) of associates and joint ventures	43,847	–	(736,050)	8,501,997	–	156,897	7,966,691
Selling expenses	30,676,022	3,290,190	3,364,118	8,501,997	1,616,080	112,307	47,560,714
General and administrative expenses	–	1,468,287	1,130,938	–	101,162	–	2,700,387
Operating income	25,301,772	650,454	1,230,068	123,783	846,640	149,560	28,302,277
Foreign exchange gains - net	5,374,250	1,171,449	1,003,112	8,378,214	668,278	(37,253)	16,558,050
Finance income	942,372	1,176	6,064	121,542	4,757	14,980	1,090,891
Finance costs	–	1,345	22,533	278,345	57,320	(152,902)	206,641
Others - net	–	(49,816)	(75,405)	–	(291,172)	270,936	(145,457)
Income before income tax	7,344,532	24,043	25,216	68,172	229,268	146,677	7,837,908
Income before income tax	13,661,154	1,148,197	981,520	8,846,273	668,451	242,438	25,548,033
Provision for income tax	3,663,744	239,271	560,609	55,103	189,694	61,379	4,769,800
Segment profit from:							
Continuing operations	9,997,410	908,926	420,911	8,791,170	478,757	181,059	20,778,233
Discontinued operations	(219,972)	–	–	–	–	–	(219,972)
	P9,777,438	P908,926	P420,911	P8,791,170	P478,757	P181,059	P20,558,261
Segment profit attributable to:							
Equity holders of the Company	P9,686,390	P889,910	P422,720	P8,791,170	P478,757	(P4,074,169)	P16,194,778
Non-controlling interests	91,048	19,016	(1,809)	–	–	4,255,228	4,363,483
Depreciation and amortization expense	1,782,542	554,067	1,462,636	27,094	312,875	21,742	4,167,125

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
	<i>(In Thousands)</i>						
Assets:							
Current assets	P435,407,693	P12,028,921	P13,881,506	P13,140,794	P10,664,924	(P10,172,364)	P474,951,474
Noncurrent assets	559,295,135	8,106,084	15,531,323	17,128,450	20,817,385	1,946,957	622,825,334
	P994,702,828	P20,135,005	P29,412,829	P30,269,244	P31,482,309	(P8,225,407)	P1,097,776,808
Liabilities:							
Current liabilities	P776,308,797	P2,813,098	P5,580,064	P304,374	P6,105,767	(P16,145,515)	P774,966,585
Noncurrent liabilities	85,859,497	556,868	798,342	103,756	8,227,741	(3,926,369)	91,619,835
	P862,168,294	P3,369,966	P6,378,406	P408,130	P14,333,508	(P20,071,884)	P866,586,420
Investments in associates and joint ventures	P2,415,414	P–	P305,413	P13,553,425	P–	P4,039,889	P20,314,141
Equity attributable to:							
Equity holders of the Company	129,639,681	16,607,026	22,997,974	29,861,115	17,148,801	(43,287,898)	172,966,699
Non-controlling interests	2,894,853	158,013	36,449	–	–	55,134,374	58,223,689
Additions to noncurrent assets:							
Property, plant and equipment	3,020,666	661,067	1,319,686	68,003	34,453	31,929	5,135,804
Investment properties	833,864	–	–	1,143,611	2,358,291	–	4,335,766
Short-term debts	–	200,000	2,050,000	–	–	(200,000)	2,050,000
Long-term debts	15,661,372	–	–	–	7,190,966	(4,206,185)	18,646,153

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2020	2019
	<i>(In Thousands)</i>	
Cash and other cash items	P26,678,312	P33,823,608
Cash equivalents:		
Due from BSP	202,129,356	105,981,801
Due from other banks	19,733,300	17,758,143
Interbank loans receivables	39,700,981	24,831,816
Securities held under agreements to resell	15,819,273	2,517,764
	P304,061,222	P184,913,132

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, which consists of:

	2020	2019
	<i>(In Thousands)</i>	
Demand deposit	P80,029,356	P92,181,801
Term deposit facility (TDF)	122,100,000	13,800,000
	P202,129,356	P105,981,801

TDFs bear annual interest rates ranging from 1.62% to 3.80% in 2020 and 3.50% to 5.23% in 2019.

Interbank loans receivables bear annual interest ranging from 0.0% to 3.7% in 2020 for peso-denominated interbank loans receivables and from 0.0% to 2.2% and from 0.0% to 5.0% in 2020 and 2019, respectively, for foreign currency-denominated interbank loans receivables.

Securities held under agreements to resell bear interest ranging from 2.00% to 3.25%, from and 4.00% to 4.75% in 2020 and 2019, respectively. As of December 31, 2020 and 2019, allowance for credit losses on securities held under agreements to resell amounted to nil and P1.9 million, respectively.

The fair value of the treasury bills pledged under these agreements as of December 31, 2020 and 2019 amounted to P16.5 billion and P2.5 billion, respectively, for the Group (Note 33).

Interest earned on cash and other cash items and cash equivalents are presented under “Banking revenue” and “Finance income”, respectively (see Notes 24 and 27).

6. Financial Assets at FVTPL

Financial assets at FVTPL consist of:

	2020	2019
	(In Thousands)	
Government securities	P18,136,391	P8,503,822
Private debt securities	4,296,100	3,130,156
Equity securities	1,019,626	1,455,435
Derivative assets (Notes 21 and 33)	370,653	373,040
Unit investment trust fund (UITF)	35,554	6,927
	P23,858,324	P13,469,380

The effective interest rates of debt securities at FVTPL range from:

	2020	2019
Government securities	2.6% - 8.0%	2.8% - 9.5%
Private debt securities	4.9% - 7.0%	5.5% - 7.4%

7. Financial Assets at FVTOCI and Financial Assets at Amortized Cost

Financial Assets at FVTOCI

This account consists of:

	2020	2019
	(In Thousands)	
Government securities (Note 17)	P111,351,402	P91,540,723
Other debt securities	21,418,534	30,390,001
Equity securities:		
Quoted	2,352,669	4,174,897
Unquoted	1,202,319	1,412,000
	136,324,924	127,517,621
Noncurrent portion	(76,644,306)	(110,549,031)
	P59,680,618	P16,968,590

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

a. For the years ended December 31, 2020, 2019 and 2018, the nominal interest rates of government securities range from 0.2% to 18.3%, 0.2% to 18.3% and 1.8% to 9.5%, respectively.

b. For the years ended December 31, 2020, 2019 and 2018, the nominal interest rates of private debt securities range from 2.0% to 6.9%, 3.5% to 6.9% and 2.6% to 7.4%, respectively.

c. As of December 31, 2020 and 2019, 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 P44.6 billion and P8.2 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. As of December 31, 2020 and 2019, the ECL on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to P67.4 million. Movements in ECL on debt securities at FVOCI are mostly driven by movements in the corresponding gross figures.

The net unrealized gains on financial assets at FVTOCI amounted to P3.1 billion for the Group, net of deferred income tax effect amounting to P412.9 million, and P3.3 billion for the Group, net of deferred income tax effect amounting to P15.8 million and P73.1 million in 2020 and 2019, respectively.

Financial Assets at Amortized Cost

This account consists of:

	2020	2019
Government securities	P42,713,634	P55,594,860
Private debt securities	56,504,757	48,655,093
	99,218,391	104,249,953
Less allowance for expected credit losses	(3,982,398)	(3,785,196)
	P95,235,993	P100,464,757

In 2020 and 2019, 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.

On various dates in April 2019, PNB sold a portion of its investment securities at amortized cost with a carrying value of P29.5 million and corresponding gain of P0.2 million as part of its risk management policies.

As of December 31, 2020 and 2019, the carrying value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to P26.1 billion and P21.0 billion, respectively (see Note 17).

8. Loans and Receivables

Loans and receivables consist of:

	2020	2019
	(In Thousands)	
Finance receivables (Notes 17 and 22)	P630,805,715	P672,252,455
Trade receivables	17,097,546	15,273,662
Other receivables	3,421,422	3,401,409
	651,324,683	690,927,526
Allowance for credit losses	(34,726,196)	(18,747,178)
	616,598,487	672,180,348
Noncurrent portion	(393,592,324)	(411,253,754)
	P223,006,163	P260,926,594

Finance Receivables

	2020	2019
	(In Thousands)	
Receivables from customers:		
Loans and discounts	P585,526,367	P616,615,375
Customers' liabilities on acceptances, letters of credit and trust receipts	11,235,946	10,185,304
Bills purchased (Note 20)	1,832,423	1,945,838
Credit card receivables	12,530,569	15,869,946
Lease contract receivable	3,014,003	3,079,713
	614,139,308	647,696,176
Other receivables:		
Accounts receivable	4,338,698	9,932,268
Accrued interest receivable	6,812,491	7,814,819
Sales contract receivables	6,548,301	6,849,281
Miscellaneous	431,704	411,102
	18,131,194	25,007,470
	632,270,502	672,703,646
Unearned and other deferred income	(1,464,787)	(451,191)
	630,805,715	672,252,455
Allowance for credit losses	(34,411,405)	(18,413,228)
	596,394,310	653,839,227
Noncurrent portion	(392,960,220)	(410,579,450)
	P203,434,090	P243,259,777

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 P803.5 million (Tranche A Note) payable in five years and at the principal amount of P3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of P5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. In 2016, PNB obtained additional non-resident unquoted debt investments amounting to P3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2020 and 2019, the notes are carried at their recoverable values.

b. Lease contract receivable

An analysis of the Group's lease contract receivable as of December 31 is presented as follows:

	2020	2019
	(In Thousands)	
Gross investment in lease contract receivable		
Due within one year	P1,377,666	P1,260,542
Due beyond one year but not over five years	906,513	1,164,893
Due beyond five years	31,845	-
	2,316,024	2,425,435
(Forward)		

	2020	2019
	(In Thousands)	
Residual value of leased equipment		
Due within one year	P374,959	P304,898
Due beyond one year but not over five years	323,020	349,380
	697,979	654,278
Total lease contract receivable	P3,014,003	P3,079,713

c. Interest income on loans and receivables amounted to P37.2 billion, P39.6 billion and P30.0 billion in 2020, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, 68.6% and 71.1%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2020 and 2019, 68.7% and 70.2%,

respectively, of the total receivables from customers of PNB were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.1% to 9.0% in 2020, from 1.0% to 9.0% in 2019 and from 1.8% to 9.0% in 2018 for foreign currency-denominated receivables, and from 1.1% to 21.0% in 2020, from 1.5% to 19.4% in 2019 and from 1.5% to 13.0% in 2018 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.3% to 21.0% in 2020, 2019 and 2018.

The reconciliation of allowance for the receivables from customers of the Banking segment are shown below.

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans								
Beginning Balance	P1,351,699	P862,403	P5,838,830	P8,052,932	P1,295,286	P36,592	P3,828,372	P5,160,250
Newly originated assets which remained in Stage 1 at yearend	248,412	-	-	248,412	858,446	-	-	858,446
Newly originated assets which moved to Stages 2 and 3 at yearend	-	311,136	255,094	566,230	-	602,760	2,185,515	2,788,275
Transfers to Stage 1	127,422	(104,193)	(23,229)	-	6,465	(5,342)	(1,123)	-
Transfers to Stage 2	(49,891)	74,188	(24,297)	-	(18,613)	45,272	(26,659)	-
Transfers to Stage 3	(201,545)	(65,790)	267,335	-	(8,691)	(2,070)	10,761	-
Accounts charged off	-	-	-	-	-	-	(97,153)	(97,153)
Provisions (reversals)	(741,893)	(77,013)	12,041,160	11,222,254	(12,038)	30,755	101,466	120,183
Effect of collections and other movements	(296,571)	(310,249)	(262,752)	(869,572)	(769,156)	154,436	(162,349)	(777,069)
Ending Balance	437,633	690,482	18,092,141	19,220,256	1,351,699	862,403	5,838,830	8,052,932
LGU								
Beginning Balance	30,089	11,092	26,469	67,650	41,515	4,190	24,915	70,620
Newly originated assets which remained in Stage 1 at yearend	2,399	-	-	2,399	4,480	-	-	4,480
Reversals	(1,196)	(1,226)	-	(2,422)	-	-	-	-
Effect of collections and other movements	(7,252)	(8,129)	(1,553)	(16,934)	(15,906)	6,902	1,554	(7,450)
Ending Balance	24,040	1,737	24,916	50,693	30,089	11,092	26,469	67,650
Credit Cards								
Beginning Balance	37,867	41,397	1,526,487	1,605,751	47,670	58,667	969,239	1,075,576
Newly originated assets which remained in Stage 1 at yearend	4,272	-	-	4,272	5,432	-	-	5,432
Newly originated assets which moved to Stages 2 and 3 at yearend	-	3,017	33,363	36,380	-	3,930	33,824	37,754
Transfers to Stage 1	14,459	(8,245)	(6,214)	-	15,147	(6,325)	(8,822)	-
Transfers to Stage 2	(631)	701	(70)	-	(1,004)	1,100	(96)	-
Transfers to Stage 3	(5,473)	(28,914)	34,387	-	(2,350)	(19,524)	21,874	-
Accounts charged off	(1,077)	(4,023)	(603,693)	(608,793)	-	-	(328,919)	(328,919)
Provisions	61,271	21,095	1,495,684	1,578,050	16,519	19,561	603,814	639,894
Effect of collections and other movements	(72,464)	1,218	43,254	(27,992)	(43,547)	(16,012)	146,726	87,167
Ending Balance	38,224	26,246	2,523,198	2,587,668	37,867	41,397	1,437,640	1,516,904
Retail SMEs								
Beginning Balance	377,435	73,581	1,031,436	1,482,452	199,401	64,134	600,598	864,133
Newly originated assets which remained in Stage 1 at yearend	2,609	-	-	2,609	212,530	-	-	212,530
Newly originated assets which moved to Stages 2 and 3 at yearend	-	1,482	171	1,653	-	13,307	55,459	68,766
Transfers to Stage 1	13,826	(706)	(13,120)	-	23,983	(2,039)	(21,944)	-
Transfers to Stage 2	(20,257)	31,634	(11,377)	-	(178)	2,472	(2,294)	-
Transfers to Stage 3	(3,530)	(3,036)	6,566	-	(2,412)	(1,881)	4,293	-
Accounts charged off	-	-	(2,477)	(2,477)	-	-	(12,750)	(12,750)
Provisions (reversals)	249,043	(7,814)	305,381	546,610	15,170	4,015	236,637	255,822
Effect of collections and other movements	(257,852)	(74,355)	109,552	(222,655)	(71,059)	(6,427)	171,437	93,951
Ending Balance	361,274	20,786	1,426,132	1,808,192	377,435	73,581	1,031,436	1,482,452
Housing Loans								
Beginning Balance	889,425	547,589	114,407	1,551,421	498,036	643,926	131,523	1,273,485
Newly originated assets which remained in Stage 1 at yearend	1,048	-	-	1,048	501,707	-	-	501,707
Newly originated assets which moved to Stages 2 and 3 at yearend	-	7,586	42,555	50,141	-	16,462	59,779	76,241
Transfers to Stage 1	24,929	(6,896)	(18,033)	-	173,452	(121,482)	(51,970)	-
Transfers to Stage 2	(1,780)	5,252	(3,472)	-	(14,155)	27,900	(13,745)	-
Transfers to Stage 3	(5,524)	(12,767)	18,291	-	(20,109)	(296,405)	316,514	-
Accounts charged off	-	-	-	-	-	-	(39,865)	(39,865)
Provisions (reversals)	(66,831)	83,538	1,109,858	1,126,565	-	51,681	542,813	594,494
Effect of collections and other movements	(741,371)	(516,516)	2,899,354	1,641,467	(249,506)	225,507	(830,642)	(854,641)
Ending Balance	99,896	107,786	4,162,960	4,370,642	889,425	547,589	114,407	1,551,421
Auto Loans								
Beginning Balance	154,130	45,312	44,401	243,843	114,151	67,820	49,384	231,355
Newly originated assets which remained in Stage 1 at yearend	540	-	-	540	67,305	-	-	67,305
Newly originated assets which moved to Stages 2 and 3 at yearend	-	872	13,885	14,757	-	4,522	16,728	21,250
Transfers to Stage 1	4,234	(800)	(3,434)	-	28,932	(12,239)	(16,693)	-
Transfers to Stage 2	(1,876)	2,199	(323)	-	(1,063)	4,433	(3,370)	-
Transfers to Stage 3	(4,139)	(3,506)	7,645	-	(1,029)	(12,351)	13,380	-
Accounts charged off	-	-	(1,488)	(1,488)	-	-	-	-
Provisions (reversals)	(6,271)	2,916	770,300	766,945	-	-	101,941	101,941
Effect of collections and other movements	(453)	(3,841)	12,501	8,207	(54,166)	(6,873)	(116,969)	(178,008)
Ending Balance	146,165	43,152	843,487	1,032,804	154,130	45,312	44,401	243,843
(Forward)								

brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to P13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of P5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to P5.1 billion in 2010. The portion attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized a gain of about P293.0 million each year starting 2011 until 2017 and an outright loss of P2.0 billion in 2010, which are included in the "Equity in net earnings" in these periods. Further, as a result of the transfer of selected assets and liabilities, portion of the revaluation increment on FTC's property, plant and equipment amounting to P1.9 billion was transferred to retained earnings.

Also, as a result of the transaction, FTC has obtained the right to sell (put option) its interest in PMFTC to PMPMI, except in certain circumstances, during the period from February 25, 2015 through February 24, 2018, at an agreed-upon value. On December 10, 2013, the BOD of LTG approved the waiver by FTC of its rights under the Exit Rights Agreement entered into with PMI and confirmed the execution of the Termination Agreement.

Summarized financial information of PMFTC, based on its financial statements as of December 31, are set out below:

	2020	2019
	<i>(In Thousands)</i>	
Current assets	P45,515,749	P47,037,934
Noncurrent assets	26,952,835	29,206,664
Current liabilities	14,791,824	13,449,004
Noncurrent liabilities	5,713,996	6,127,518
Equity	51,962,764	56,668,076
Equity interest of the Parent Company	49.6%	49.6%
Share in net assets of the acquiree	25,773,531	28,107,366
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	(12,031,781)	(9,688,746)
Carrying value of investment	P13,741,750	P18,418,620

Summarized financial information of PMFTC, based on its financial statements as at December 31, 2020 and 2019 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2020	2019	2018
	<i>(In Thousands)</i>		
Revenue	P174,956,574	P170,872,448	P145,305,192
Costs and expenses	(125,822,537)	(126,819,405)	(121,412,768)
Income before income tax	49,134,037	44,053,043	23,892,424
Provision for income tax	(14,911,929)	(13,252,072)	(7,099,376)
Net income	34,222,108	30,800,971	16,793,048
Other comprehensive income (loss)	(63,186)	(35,584)	135,435
Total comprehensive income	P34,158,922	P30,765,117	P16,928,483
Group's share of total comprehensive income for the year	P16,942,825	P16,305,060	P8,461,462

Investment in VMC

Details of investment in VMC are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Acquisition cost	P1,459,768	P1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	1,390,291	1,139,120
Equity in net earnings	263,800	251,171
Balance at end of year	1,654,091	1,390,291
Share in remeasurement gain on defined benefit plans	(18,347)	(1,015)
Balance of convertible notes	58,460	58,460
	P3,153,972	P2,907,504

10. Other Current Assets

	2020	2019
	<i>(In Thousands)</i>	
Creditable withholding taxes (CWT)	P2,589,436	P4,488,682
Prepaid expenses	2,074,966	1,399,984
Input VAT	1,800,352	1,519,068
Advances to suppliers	1,770,204	1,629,372
Deferred charges	856,788	3,134
Excise tax	779,123	185,043
Stationeries, office supplies and stamps on hand	81,110	86,843
Miscellaneous cash and other cash items	29,246	86,542
Deferred reinsurance premiums	–	1,135,113
Deferred rent	–	244,206
Others	927,679	601,278
	P10,908,904	P11,379,265

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. Prepaid expenses include prepaid importation charges amounting to P945.6 million and P519.6 million as of December 31, 2020 and 2019, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits.

c. Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.

d. Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages.

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	
	2020	2019	2020	2019
	<i>(In Thousands)</i>			
<i>Associates:</i>				
PMFTC	49.6%	49.6%	P13,741,750	P18,418,620
VMC	30.9%	30.9%	3,153,972	2,898,208
APLII	44.0%	44.0%	2,310,410	2,605,473
AB HPI	50.0%	50.0%	–	–
<i>Joint Ventures:</i>				
AEPDC	50.0%	50.0%	4,514,905	3,310,806
ABI Pascual Holdings	50.0%	50.0%	56,746	21,171
			P23,777,783	P27,254,278

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Acquisition cost	P13,483,541	P13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	4,708,603	(908,866)
Equity in net earnings	16,932,501	15,396,195
Cash dividends (Note 22)	(21,751,985)	(9,778,726)
Balance at end of year	(110,881)	4,708,603
Accumulated share in other comprehensive income	369,090	226,476
	P13,741,750	P18,418,620

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

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Other Loans								
Beginning Balance	8,924	62,189	998,074	1,069,187	508,416	119,909	956,201	1,584,526
Newly originated assets which remained in Stage 1 at yearend	7,017	–	–	7,017	214,087	–	–	214,087
Newly originated assets which moved to Stages 2 and 3 at yearend	–	7,649	101,603	109,252	–	1,656	16,845	18,501
Transfers to Stage 1	10,769	(2,287)	(8,482)	–	7,501	(780)	(6,721)	–
Transfers to Stage 2	(958)	15,050	(14,092)	–	(23)	220	(197)	–
Transfers to Stage 3	(1,817)	(7,764)	9,581	–	(97)	(7,184)	7,281	–
Accounts charged off	–	–	(136,732)	(136,732)	–	(33,294)	(16,236)	(49,530)
Provisions (reversals)	(26,947)	29,844	(141,644)	(138,747)	(5,581)	8	23,520	17,947
Effect of collections and other movements	75,439	(45,238)	1,114,587	1,144,788	(715,379)	(18,346)	17,381	(716,344)
Ending Balance	72,427	59,443	1,922,895	2,054,765	8,924	62,189	998,074	1,069,187
Other Receivables								
Beginning Balance	77,497	21,915	4,240,580	4,339,992	1,084,900	4,140,841	1,823,383	7,049,124
Newly originated assets which remained in Stage 1 at yearend	2,449	–	–	2,449	76,724	–	–	76,724
Newly originated assets which moved to Stages 2 and 3 at yearend	–	922	20,632	21,554	–	32,200	499,646	531,846
Transfers to Stage 1	186	(23)	(163)	–	16,734	(7,198)	(9,536)	–
Transfers to Stage 2	(1,739)	1,741	(2)	–	(880)	3,599	(2,719)	–
Transfers to Stage 3	(51,149)	(2,811)	53,960	–	(2,227)	(21,054)	23,281	–
Accounts charged off	–	–	336	336	–	–	(49,396)	(49,396)
Provisions	44,946	12,167	674,107	731,220	123,479	21,901	572,768	718,148
Effect of collections and other movements	(2,864)	(14,425)	(1,791,877)	(1,809,166)	(1,221,233)	(3,558,205)	881,831	(3,897,607)
Ending Balance	69,326	19,486	3,197,573	3,286,385	77,497	612,084	3,739,258	4,428,839
Total Loans and Receivables								
Beginning Balance	P2,927,066	P1,665,478	P13,820,684	P18,413,228	P3,789,375	P5,136,079	P8,383,615	P17,309,069
Newly originated assets which remained in Stage 1 at yearend	268,746	–	–	268,746	1,940,711	–	–	1,940,711
Newly originated assets which moved to Stages 2 and 3 at yearend	–	332,664	467,303	799,967	–	674,837	2,867,796	3,542,633
Transfers to Stage 1	195,825	(123,150)	(72,675)	–	272,214	(155,405)	(116,809)	–
Transfers to Stage 2	(77,132)	130,765	(53,633)	–	(35,916)	84,996	(49,080)	–
Transfers to Stage 3	(273,177)	(124,588)	397,765	–	(36,915)	(360,469)	397,384	–
Accounts charged off	(1,077)	(4,023)	(744,054)	(749,154)	–	(33,294)	(544,319)	(577,613)
Provisions (reversals)	(487,878)	63,507	16,254,846	15,830,475	137,549	127,921	2,182,959	2,448,429
Effect of collections and other movements	(1,303,388)	(971,535)	2,123,066	(151,857)	(3,139,952)	(3,219,018)	108,969	(6,250,001)
Ending Balance	P1,248,985	P969,118	P32,193,302	P34,411,405	P2,927,066	P2,255,647	P13,230,515	P18,413,228

Trade Receivables

Trade receivables consist of:

	2020	2019
	<i>(In Thousands)</i>	
Consumer goods	P15,615,021	P13,899,237
Contract receivables	1,168,440	1,353,336
Lease receivables	314,085	21,089
	17,097,546	15,273,662
Allowance for credit losses	(303,551)	(322,710)
	16,793,995	14,950,952
Noncurrent portion of contract receivables	(632,104)	(674,304)
	P16,161,891	P14,276,648

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.

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 are as follows:

	December 31, 2020			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	<i>(In Thousands)</i>			
Balance at beginning of year	P18,413,228	P322,710	P11,240	P18,747,178
Provisions during the year (Note 26)				
Continuing operations	15,830,475	17,274	–	15,847,749
Discontinued operations	30,280	–	–	30,280
Reversals during the year	(12,132)	(33,841)	–	(45,973)
Accounts charged off, transfers and others	409,722	(2,592)	–	407,130
Effect of discontinued operations	(260,168)	–	–	(260,168)
Balance at end of year	P34,411,405	P303,551	P11,240	P34,726,196

	December 31, 2019			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	<i>(In Thousands)</i>			
Balance at beginning of year	P17,309,069	P453,211	P11,240	P17,773,520
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	(1,344,270)	(499)	–	(1,343,769)
Balance at end of year	P18,413,228	P322,710	P11,240	P18,747,178

9. Inventories

Inventories consist of:

	2020	2019
	<i>(In Thousands)</i>	
At Cost:		
Consumer goods:		
Alcohol	P4,001,287	P3,011,993
Beverage	2,427,870	2,831,328
	6,429,157	5,843,321
Real estate inventories:		
Condominium and residential units for sale	419,238	457,731
Land held for future development	217,542	217,542
Subdivision land under development	3,745,583	3,927,357
	4,382,363	4,602,630
Fuel, materials and supplies	1,096,490	915,984
	11,908,010	11,361,935
At NRV - Materials and supplies	1,267,595	834,936
	P13,175,605	P12,196,871

Allowance for inventory obsolescence on materials and supplies amounted to P4.1 million and P19.8 million as of December 31, 2020 and 2019, respectively.

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

	2020	2019
	<i>(In Thousands)</i>	
Finished goods	P873,625	P1,046,445
Work in process	1,362,453	1,816,060
Raw materials	4,193,079	2,980,816
	P6,429,157	P5,843,321

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to P14.1 billion, P14.3 billion and P17.0 billion in 2020, 2019 and 2018, respectively (see Note 24).

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

	2020	2019
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On February 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to P660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

On May 23, 2017, portions of the convertible notes amounting to P58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

The summarized financial information of VMC as of November 30, 2020 and 2019 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2020	2019
	(In Thousands)	
Current assets	P3,457,095	P2,919,787
Noncurrent assets	6,388,839	6,588,422
Current liabilities	732,353	1,246,250
Noncurrent liabilities	951,652	1,005,420
Equity	8,161,929	7,256,539
Equity interest of the Parent Company	30.9%	30.9%
Share in net assets of the acquiree	2,522,036	2,242,271
Fair value adjustments and others	631,936	665,233
Carrying value of investment	P3,153,972	P2,907,504

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

	2020	2019	2018
	(In Thousands)		
Revenue	P7,437,424	P6,343,290	P6,080,583
Costs and expenses	(6,431,233)	(5,296,131)	(4,949,048)
Income before income tax	1,006,191	1,047,159	1,131,535
Provision for income tax	(152,468)	(234,308)	(332,421)
Net income	853,723	812,851	799,114
Other comprehensive loss	(26,009)	(3,285)	(32,781)
Total comprehensive income	P827,714	P809,566	P766,333
Group's share of total comprehensive income for the year	P255,764	P250,156	P236,769

Investment in APLII

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

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

The sale of APLII was completed on June 6, 2016 for a total consideration of US\$66.0 million (P3.1 billion). Pursuant to the sale of APLII, PNB also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of PNB and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of US\$66.0 million (P3.1 billion) was allocated between the sale of the 51% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to US\$44.9 million (P2.1 billion) and US\$21.1 million (P1.0 billion), respectively.

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

The Group recognized gain on sale of the 51% interest in APLII amounting to

P400.3 million, net of taxes and transaction costs amounting to P276.7 million and P153.3 million, respectively. The deferred revenue amounting to P976.2 million allocated to the EDR was presented as "Other deferred revenue" and will be amortized to income over 15 years from date of sale (see Note 20). Amortization amounting to P36.5 million was recognized in 2016 (see Note 28). Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to P292.4 million between June 2, 2016 and June 5, 2016.

Consequently, PNB accounted for its remaining 44% ownership interest in APLII as an associate. At the date of loss of control, PNB's investment in APLII was remeasured to P2.7 billion based on the fair value of its retained equity. PNB recognized gain on remeasurement amounting to P1.6 billion in the 2016 consolidated statement of income.

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

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

Summarized financial information of APLII as of December 31, 2020 and 2019 follows:

	2020	2019
	(In Thousands)	
Current assets	P1,697,490	P1,287,221
Noncurrent assets	50,584,277	35,866,453
Current liabilities	2,636,733	1,130,146
Noncurrent liabilities	47,905,927	33,766,163
Equity	1,739,107	2,257,365
Equity interest of the Parent Company	44%	44%
Share in net assets of the acquiree	765,207	993,241
Premium on acquisition	1,545,203	1,601,389
Carrying value of investment	P2,310,410	P2,594,630

Summarized statements of total comprehensive income of APLII for the year ended December 31 are as follows:

	2020	2019
	(In Thousands)	
Revenue	P3,132,745	P3,721,320
Costs and expenses	(2,846,825)	(3,881,720)
Net income (loss)	285,920	(160,400)
Other comprehensive income	297,096	297,095
Total comprehensive income	P583,016	P136,695
Group's share of total comprehensive income for the year	P256,527	P60,145

Investment in AB HPI

On May 6, 2016, AB HPI was incorporated and registered with the Philippine SEC for 1,000 authorized shares at P1,000 par value per share under the name of Broncobrew, Incorporated (Broncobrew). The Philippine SEC approved the change in corporate name of Broncobrew to AB Heineken Philippines Inc. on July 12, 2016.

On May 30, 2016, the Group, through ABI, fully paid its initial subscription to 250 common shares at 1,000 par value per share purchased additional 250 common shares at issue price of P4,750,000. On November 15, 2016, the Group purchased additional 782,400 common shares at P1,000 par value per share out of the proposed increase in the authorized capital stock of AB HPI. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken International B.V. on May 27, 2016, the Group sold nonmonetary assets, (i.e., inventories, returnable containers and brands), to AB HPI for a total consideration of P782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain of P46.3 million. The Group also recognized the investment amounting to P1,843.6 million representing 50% of the fair value of AB HPI's net assets.

On March 20, 2020, the Group made additional capital infusion amounting to P31.3 million to support the operations of AB HPI.

On December 21, 2020, the Group entered into an amended Shareholders' Agreement contemporaneously with the Termination Deed with Heineken and AB HPI, to wind down the business and operations of AB HPI effective on December 31, 2020. The amended Shareholders' Agreement was entered into to amend, restate and eventually terminate the Shareholders' Agreement entered into on May 27, 2016 in its entirety, including the other agreements covered by the said agreement.

Furthermore, in accordance with the Termination Deed, the Group acquired fixed assets, including beer equipment, inventories and spare parts, from AB Heineken for proceeds totaling to P1.6 billion. The Group accounted for the purchase of these assets as an acquisition of group of assets and recognized these assets based on their acquisition cost.

On December 22, 2020, additional capital infusion amounting to P361.1 million was made to cover for AB HPI's outstanding debts, winding up and maintenance costs, consultant fees and taxes.

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

	2020	2019
	(In Thousands)	
Acquisition cost:		
Beginning balance	P787,400	P787,400
Additional investments	392,354	—
Balance at end of year	1,179,754	787,400
Accumulated equity in net earnings:		
Balance at the beginning of the year	(1,229,143)	(512,503)
Share in net loss of an associate	32,558	(716,640)
Balance at end of year	(1,196,585)	(1,229,143)
Excess of share in net losses in an associate over the cost of investment in an associate	P16,831	P441,743

In 2020 and 2019, the Group recorded a provision for excess of share in net losses of the associate over the cost of investment in and advance to an associate amounting to P16.8 million and P441.7 million, respectively. This was recorded as part of "Other noncurrent liabilities" account on the consolidated balance sheet.

Pursuant to the Termination Deed, ABI recorded reversal of share in net losses of AB HPI to the extent of its legal obligation to further contribute in case of insufficient funding of AB HPI to settle its liabilities in 2020, proportionate to its ownership in AB HPI, amounting to P32.6 million.

The reconciliation of the net assets of the foregoing material associate to the carrying amount of the interest in this associate recognized in the consolidated balance sheets is as follows:

	2020	2019
Net assets (capital deficiency)	P13,425	(P883,485)
Proportionate ownership	50%	50%
	P6,713	(P441,743)

Summarized financial information of AB HPI as of December 31, 2020 and 2019 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2020	2019
	(In Thousands)	
Current assets	P935,967	P3,423,754
Noncurrent assets	—	2,537,818
Current liabilities	922,542	3,088,271
Noncurrent liabilities	—	3,765,330
Equity (capital deficiency)	P13,425	(P892,029)

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

	2020	2019
	(In Thousands)	
Revenue	P2,668,605	P2,913,073
Costs and expenses	(3,810,276)	(4,346,353)
Total comprehensive loss	P1,141,671	P1,433,280
Group's share of total comprehensive loss for the year	P—	P274,897

Investment in AEPDC

On January 21, 2016, the Company entered into an agreement with Ayala Land Inc. (ALI) to jointly develop a project along the C5 corridor. The project is envisioned to be a township development that spans portion of Pasig City and Quezon City. On April 15, 2016, the Company infused P20.0 million to the joint project with ALI.

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to P252.0 million.

On November 20, 2017, the Company made additional capital infusion amounting to P370.0 million for the joint venture's initial purchase of land in exchange for 370,000,000 common shares.

In 2018, the Company made additional capital infusion totaling to P1.5 billion for the joint venture's project planning and development and direct operating expenses.

On July 16 and November 19, 2019, the Company infused additional capital totaling to P1,195.0 million for subscription of remaining unsubscribed shares and for increase in authorized capital stock.

On April 28 and July 27, 2020, the Company infused additional capital totaling P1,083.5 million for the joint venture's capital expenditure on construction projects and working capital.

Details of the investment in a joint venture as of December 31 are as follows:

	2020	2019
	(In Thousands)	
Acquisition cost:		
Balance at beginning of year	P3,371,000	P2,176,000
Additional capital infusion during the year	1,083,500	1,195,000
Balance at end of year	4,454,500	3,371,000
Accumulated equity in net earnings:		
Balance at the beginning of the year	(56,647)	(49,674)
Share in net income (loss) of a joint venture*	119,052	(8,973)
Balance at end of year	60,405	(58,647)
Ending balance	P4,514,905	P3,312,353

*Includes catch-up adjustment of share in net loss in 2019

Summarized financial information of AEPDC as of December 31, 2020 and 2019 follows:

	2020	2019
	(In Thousands)	
Current assets	P12,838,898	P12,780,696
Noncurrent assets	3,985,368	3,868,199
Current liabilities	8,394,044	7,783,092
Noncurrent liabilities	3,390,318	2,241,098
Equity	5,039,904	6,624,705

Summarized statements of total comprehensive income of AEPDC for the year ended December 31 are as follows:

	2020	2019
	(In Thousands)	
Revenue	P974,411	P3,153,413
Costs and expenses	(629,969)	(3,126,471)
Income before income tax	344,442	26,942
Provision for income tax	(103,243)	47,982
Total comprehensive income (loss)	P241,199	(P21,040)
Group's share of total comprehensive income (loss) for the year	P120,599	(P10,520)

Investment in ABI Pascual Holdings

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

On November 21, 2012, ABI Pascual Holdings created ABI Pascual Foods Incorporated (ABI Pascual Foods), an operating company, incorporated and

domiciled in the Philippines, that will develop a business of marketing and distributing certain agreed products. As part of the joint venture agreement, the venturers also agreed to execute a product distribution agreement.

As of December 31, 2012, ABI has an investment in ABI Pascual Holdings amounting to P20.1 million, while ABI Pascual Holdings has an investment in ABI Pascual Foods amounting to P40.2 million. The joint venture has started operations in September 2013.

The Group determined that its advances to ABI Pascual Foods represents the Group's long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group's net investment in the joint venture.

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

	2020	2019
	(In Thousands)	
Current assets	P529,034	P250,991
Noncurrent assets	3,151	4,031
Current liabilities	404,092	205,670
Noncurrent liabilities	13,285	13,753
Total equity	114,808	35,599

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

	2020	2019
	(In Thousands)	
Revenue	P385,710	P353,909
Costs and expenses	288,875	(364,563)
Income (loss) before income tax	96,835	(10,654)
Provision for income tax	9,192	381
Net loss	87,643	(11,035)
Other comprehensive income	3,184	-
Total comprehensive income (loss)	P90,827	(P11,035)
Group's share of total comprehensive income (loss) for the year	P35,575	(P5,518)

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:

	2020	2019	2018
	(In Thousands)		
Accumulated balances of material non-controlling interest	P3,201,276	P2,882,038	P47,290,358
Net income allocated to material non-controlling interest	10,835	79,726	3,095,918
Total comprehensive income (loss) allocated to material non-controlling interest	319,237	(14,705)	1,743,424

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:

	2020	2019	2018
	(As Restated, Note 37)	(As Restated, Note 37)	(As Restated, Note 37)
	(In Thousands)		
Revenue	P54,973,243	P56,772,519	P40,416,175
Cost of services	(12,113,434)	(19,143,478)	(9,784,000)
General and administrative expenses	(44,655,737)	(28,503,520)	(25,301,772)
Foreign exchange gains - net	919,555	1,105,903	942,372
Other income - net	1,772,876	2,057,559	7,344,532
Income before income tax	896,503	12,288,983	13,617,307
Benefit from (provision for) income tax	1,798,238	(2,452,307)	(3,663,744)
Net income from continuing operations	2,694,741	9,836,676	9,953,563
Net income (loss) from discontinued operations	67,583	101,593	(219,972)
Net income	2,762,324	9,938,269	9,733,591
Other comprehensive income (loss)	(2,023,525)	4,821,405	(5,728,481)
Total comprehensive income	P738,799	P14,759,674	P4,005,110

(Forward)

	2020	2019	2018
	(As Restated, Note 37)	(As Restated, Note 37)	(As Restated, Note 37)
	(In Thousands)		
Net income attributable to:			
Equity holders of the Parent Company	P2,751,489	P9,858,543	P6,637,673
Non-controlling interests	10,835	79,726	3,095,918
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	756,023	14,774,379	3,788,975
Non-controlling interests	(17,224)	(14,705)	216,135
Dividends declared to non-controlling interests	19,161	3,372	3,366

Statements of Financial Position:

	2020	2019
	(In Thousands)	
Current assets	P644,182,968	P488,857,140
Noncurrent assets	599,009,724	665,367,850
Current liabilities	946,187,119	865,580,704
Noncurrent liabilities	136,649,515	129,363,371
Equity attributable to:		
Equity holders of the Parent Company	157,154,782	156,398,876
Non-controlling interest	3,201,276	2,882,039

Statements of Cash Flows:

	2020	2019	2018
	(In Thousands)		
Operating	P97,190,366	P22,079,130	P12,816,916
Investing	(6,726,929)	(66,100,996)	(51,680,279)
Financing	30,464,746	51,891,720	40,266,286
Net increase in cash and cash equivalents	P120,928,183	P7,869,854	P1,402,923

12. Property, Plant and Equipment

December 31, 2020

	At Appraised Values			At Cost						Subtotal	Right-of-Use Assets	Total
	Land Improvements	Buildings and Plant Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction In Progress			
<i>(In Thousands)</i>												
Cost												
Balance at beginning of year	P40,731,214	P21,913,754	P28,578,383	P91,223,331	P7,686,583	P2,773,472	P4,607,717	P13,611,341	P1,382,293	P30,031,406	P3,588,074	P124,842,811
Additions/transfers (Note 13)	24,854	592,817	1,615,261	2,232,932	447,903	329,106	686,599	1,238,638	132,653	2,834,899	157,573	5,225,404
Net decrement in appraised value	(799,156)	(477,644)	(5,552,997)	(6,829,797)	-	-	-	-	-	-	-	(6,829,797)
Disposals/transfers/others (Note 28)	617,915	(1,452,727)	399,047	(435,765)	151,018	(20,267)	-	(574,765)	(370,776)	(814,790)	67,054	(1,183,501)
Effect of disposal group classified as held for sale (Note 37)	-	-	-	-	(6,239)	-	-	(46,269)	-	(52,508)	(65,833)	(118,341)
Balance at end of year	40,574,827	20,576,200	25,039,674	86,190,701	8,249,265	3,082,311	5,294,316	14,228,945	1,144,170	31,999,007	3,746,888	121,936,576
Accumulated Depreciation, Amortization and Impairment Losses												
Balance at beginning 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
Depreciation and amortization	93,187	598,694	987,154	1,679,035	451,302	233,069	304,809	757,716	-	1,746,896	1,233,524	4,659,455
Net decrement in appraised value	(885,602)	(399,247)	(5,569,390)	(6,854,239)	-	-	-	-	-	-	-	(6,854,239)
Disposals/transfers/others (Note 28)	618,307	(842,772)	260,477	36,012	227,787	(5,230)	24,393	(3,316)	-	243,634	(527,337)	(247,691)
Effect of disposal group classified as held for sale (Note 37)	-	-	-	-	(5,817)	-	-	(40,212)	-	(46,029)	(23,876)	(69,905)
Balance at end of year	2,038,064	7,318,915	16,915,249	26,272,228	5,220,113	2,167,104	3,805,343	11,629,876	-	22,822,436	1,336,640	50,431,304
Net Book Value	P38,536,763	P13,257,285	P8,124,425	P59,918,473	P3,029,152	P915,207	P1,488,973	P2,599,069	P1,144,170	P9,176,571	P2,410,228	P71,505,272

December 31, 2019

	At Appraised Values			At Cost (As Restated, Note 37)							Total	
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineryes 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
Cost												
Balance at beginning of year	P40,432,488	P20,947,525	P28,362,171	P89,742,184	P6,846,941	P2,569,749	P4,192,636	P12,504,073	P1,713,838	P27,827,237	P3,126,156	P120,695,577
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	P38,519,042	P13,951,514	P7,341,355	P59,811,911	P3,109,742	P834,207	P1,131,576	P2,695,653	P1,382,293	P9,153,471	P2,933,745	P71,899,127

Right-of-use assets

December 31, 2020

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	P2,279,267	P1,185,608	P73,661	P49,538	P3,588,074
Additions/transfers	122,420	34,270	883	–	157,573
Transfers/others	67,054	–	–	–	67,054
Effect of disposal group classified as held for sale (Note 37)	(65,833)	–	–	–	(65,833)
Balance at end of year	2,402,908	1,219,878	74,544	49,538	3,746,868
Accumulated Depreciation, Amortization and Impairment Losses					
Balance at beginning of year	568,067	70,542	4,911	10,809	654,329
Depreciation and amortization	1,159,449	45,063	17,347	11,665	1,233,524
Transfers/others	(527,337)	–	–	–	(527,337)
Effect of disposal group classified as held for sale (Note 37)	(23,876)	–	–	–	(23,876)
Balance at end of year	1,176,303	115,605	22,258	22,474	1,336,640
Net Book Value	P1,226,605	P1,104,273	P52,286	P27,064	P2,410,228

December 31, 2019

	Bank Premises	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Total
Cost					
Balance at beginning of year	P1,817,349	P1,185,608	P73,661	P49,538	P3,126,156
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	P1,711,200	P1,115,066	P68,750	P38,729	P2,933,745

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, 2020, 2018 and 2016 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	P20,930,672	P22,060,427
Net revaluation increase (decrease)	27,610	(395,141)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(751,046)	(734,614)
Balance at end of year	P20,207,236	P20,930,672
Attributable to:		
Equity holders of the Company	P12,276,947	P12,726,318
Non-controlling interests	7,930,289	8,204,354
	P20,207,236	P20,930,672

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:

	2020	2019
	<i>(In Thousands)</i>	
Cost		
Land and land improvements	P8,989,134	P8,652,306
Plant buildings and improvements	17,730,503	17,066,131
Machineries and equipment	34,756,304	33,477,421
	61,475,941	59,195,858
Accumulated depreciation		
Land and land improvements	(3,574,926)	(3,408,293)
Plant buildings and improvements	(11,058,925)	(10,730,252)
Machineries and equipment	(15,791,097)	(15,146,362)
	(30,424,948)	(29,284,907)
	P31,050,993	P29,910,951

Depreciation

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

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Continuing operations:			
Cost of goods sold and services (Note 24)	P1,611,117	P1,490,522	P945,656
Selling expenses (Note 25)	328,123	292,805	321,754
General and administrative expenses (Note 26)	2,720,215	2,548,348	2,158,862
	P4,659,455	P4,331,675	P3,426,272

As of December 31, 2020 and 2019, 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 2021, and PNB's construction of building.

Out of the total additions in 2020 and 2019, P154.3 million and P180.4 million remain to be unpaid as of December 31, 2020 and 2019, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of P92.6 million are temporarily idle as of December 31, 2020 and 2019, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to P9.9 million and P10.6 million as of December 31, 2020 and 2019, 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 2020, 2019 and 2018.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2020				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	P22,150,005	P14,830,264	P42,096	P2,464,471	P39,486,836
Additions	55,430	79,275	–	858,068	992,773
Disposals/transfers/others	(53,455)	(64,496)	–	–	(117,951)
Balance at end of year	22,151,980	14,845,043	42,096	3,322,539	40,361,658
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	2,501,903	4,313,001	40,491	–	6,855,395
Depreciation	–	556,356	–	–	556,356
Disposals/transfers/others	–	112,532	–	–	112,532
Balance at end of year	2,501,903	4,981,889	40,491	–	7,524,283
Net Book Value	P19,650,077	P9,863,154	P1,605	P3,322,539	P32,837,375

	December 31, 2019				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	P22,137,643	P11,397,724	P7,620	P4,179,574	P37,722,561
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)	(553,129)	32,871	–	(1,576,541)
Balance at end of year	2,501,903	4,313,001	40,491	–	6,855,395
Net Book Value	P19,648,102	P10,517,263	P1,605	P2,464,471	P32,631,441

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 P181.2 million and P455.6 million as of December 31, 2020 and 2019, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of P4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2020 and 2019, 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, 2020, which were determined by professionally qualified, accredited and independent appraisers based on market values *(in thousands)*:

Land	P37,007,466
Buildings and improvements	16,935,051
	P53,942,517

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 P1,757.7 million and P466.6 million in 2020, P1,707.8 million and P444.1 million in 2019 and P1,494.7 million and P373.6 million in 2018, 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:

	2020	2019	2018
	<i>(In Thousands)</i>		
Cost of rental income (Note 24)	P296,517	P400,369	P336,779
General and administrative expenses (Note 26)	259,839	127,654	77,381
	P556,356	P528,023	P414,160

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2020	2019
	<i>(In Thousands)</i>	
Software costs	P2,680,548	P2,326,055
Deferred charges	859,031	743,727
Prepaid excise taxes (Note 38)	801,820	797,388
Deferred input VAT	496,205	398,812
Creditable withholding taxes	396,550	380,442
Net retirement plan assets (Note 23)	249,437	259,959
Distribution network access	243,738	272,414
Advances to suppliers	207,828	1,324,642
Refundable and security deposits	206,931	222,020
Goodwill	163,735	163,735
Chattel properties - net	115,356	168,661
Others - net	941,915	1,508,494
	7,363,094	8,566,349
Allowance for probable losses	(1,314,007)	(1,058,123)
	P6,049,087	P7,508,226

a. Movements in software costs are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	P2,326,055	P2,314,770
Additions	786,764	384,800
Amortization (Note 26)	(418,958)	(376,120)
Effect of disposal group classified as held for sale	(5,134)	–
Other adjustments	(8,179)	2,605
Balance at end of year	P2,680,548	P2,326,055

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. Deferred input VAT arises mainly from the acquisition of capital goods.

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. 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 (MACEA) for plans processing, monitoring fee and development charge of the Group’s projects. Deposits paid to utility companies will be refunded upon termination of the service contract while guarantee deposit paid to MACEA will be refunded upon project completion.

f. The Group recognized goodwill which pertains mainly to ADI amounting to P144.7 million, respectively. As of December 31, 2020 and 2019, 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 9.8% and 7.0% in 2020 and 2019, respectively. The growth

rate used to extrapolate the cash flows of until beyond the five-year period is 6.5% as of December 31, 2020 and 6.2% as of December 31, 2019. 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, 2020 and 2019, the recoverable amount of ADI is higher than its carrying value.

g. As of December 31, 2020 and 2019, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to P140.1 million and P94.5 million, respectively. As of December 31, 2020 and 2019, the total recoverable value of certain chattel mortgage properties of PNB that were impaired is at P0.9 million .

h. The Group has receivable from OPII, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2020 and 2019, 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 P500.0 million are recorded under “Other income (charges)” (see Note 28).

i. Provision for probable losses represents provision for probable claims by third party in the ordinary course of business. The disclosure of additional details beyond the present disclosure may seriously prejudice the Company’s position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, only a general description is provided.

j. Movements in the allowance for probable losses on non-current assets follow:

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year	P1,058,123	P1,178,605
Provisions:		
Continuing operations (Note 28)	677,089	–
Discontinued operation	(527)	–
Transfers and others	(391,085)	(120,149)
Effect of discontinued operations	(29,593)	–
Disposals	–	(333)
	P1,314,007	P1,058,123

k. Miscellaneous assets mainly pertain to interoffice floats. The bank provided allowance for probable losses on floats which are long outstanding.

15. Deposit Liabilities

	2020	2019
	<i>(In Thousands)</i>	
Demand	P199,770,048	P172,228,956
Savings	415,835,439	383,963,252
Time	264,906,076	262,046,747
	880,511,563	818,238,955
Presented as noncurrent	(58,380,208)	(46,095,883)
	P822,131,355	P772,143,072

Of the total deposit liabilities of the Group, P29.3 billion and P37.5 billion are non-interest bearing as of December 31, 2020 and 2019, respectively. Annual interest rates of the remaining deposit liabilities follow:

	2020	2019
Foreign-currency denominated deposit liabilities	0.01% to 4.75%	0.01% to 8.75%
Peso-denominated deposit liabilities	0.10% to 10.00%	0.10% 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, 2020 and 2019, available reserves booked under “Due from BSP” amounted to P89.68 billion and P92.18 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	
					2020	2019
October 11, 2019	April 11, 2025	P4,600,000	4.38%	Quarterly	P4,573,124	P4,563,212
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	8,176,616	8,155,043
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	6,332,653	6,323,898
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	3,756,911	3,751,954
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	5,372,730	5,362,599
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	–	6,995,398
		P35,315,000			P28,212,034	P35,152,104

Other significant terms and conditions of the above LTNCDs follow:

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

b. The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

c. Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

d. The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

e. Subject to the “Events of Default” in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

f. The LTNCDs are insured by the PDIC up to a maximum amount of P0.5 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 P7.3 billion, P13.6 billion and P7.7 billion in 2020, 2019 and 2018, respectively (see Note 24).

In 2020, 2019 and 2018, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to P59.9 million, P40.5 million and P39.3 million, respectively. Unamortized transaction costs of the LTNCDs amounted to P103.0 million and P162.9 million as of December 31, 2020 and 2019, 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 P701.2 million and P245.6 million as of December 31, 2020 and 2019, respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2020	2019
	<i>(In Thousands)</i>	
Bills payable to:		
BSP and local banks	P33,116,145	P52,664,371
Foreign banks	50,482,387	606,585
	83,598,532	53,270,956
Acceptances outstanding	3,560,918	2,692,334
	87,159,450	55,963,290
Presented as noncurrent	(14,181,368)	(4,141,689)
	P72,978,082	P51,821,601

Annual interest rates are shown below:

	2020	2019	2018
Foreign currency-denominated borrowings	0.1% to 4.4%	0.2% to 4.4%	0.0% to 4.4%
Peso-denominated borrowings	4.0% to 6.5%	4.0% to 5.4%	0.6% to 5.4%

PNB’s bills payable to BSP includes the transferred liabilities from Maybank amounting to P1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (see Note 8).

As of December 31, 2020 and 2019, bills payable with a carrying amount of P69.9 billion and P29.4 billion are secured by a pledge of financial assets at FVTOCI with fair values of P44.6 billion and P8.2 billion, respectively, and investment securities at amortized cost with carrying values of P26.1 billion and P21.0 billion, respectively, and fair values of P27.6 billion and P21.6 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 P2.9 billion in 2020, P2.2 billion in 2019 and P0.8 billion in 2018 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2020	2019
	<i>(In Thousands)</i>	
Trade payables	P7,821,737	P13,171,309
Nontrade payables	637,021	1,297,631
Accrued expenses:		
Purchase of materials and supplies and others	2,253,204	2,872,621
Other benefits - monetary value of leave credits	1,859,275	1,436,248
Retention payable	1,538,458	771,080
Project development costs	1,290,090	1,024,700
Interest	1,071,842	1,972,156
Taxes and licenses	979,412	1,161,301
Advertising and promotional expenses	905,604	673,648
PDIC insurance premiums	832,069	843,677
Information technology-related expenses	331,627	182,057
Rent and utilities payable	185,695	308,953
Due to government agencies	223,225	134,338
Output VAT	151,801	120,775
Other payables	767,984	729,968
	P20,849,044	P26,700,462

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.

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.

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.

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, 2020 and 2019, outstanding unsecured short-term debts amounted to P4,740.0 million and P5,150.0 million, respectively. The loans are subject to annual interest rates ranging from 3.7% to 7.0% in 2020 and 6.3% to 7.3% in 2019, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks.

Long-term Debts

	2020	2019
	<i>(In Thousands)</i>	
Bonds payable	P64,056,335	P66,615,078
Lease liabilities (Note 38)	2,775,256	3,247,876
Unsecured term loan	2,911,053	2,334,259
Notes payable	—	372,243
	69,742,644	72,569,456
Current portion	(14,527,082)	(1,002,593)
	P55,215,562	P71,566,863

PNB's Bonds Payable

The fixed rate medium term senior notes are drawdowns from PNB's Medium Term Note Programme (the MTN Programme), which was established on April 13, 2018 with an initial nominal size of US\$1.0 billion. On June 14, 2019, PNB increased the size of its MTN Programme to US\$2.0 billion. Both issued fixed rate medium term senior notes are listed in the Singapore Exchange Securities Trading Limited.

The fixed rate bonds represent PNB's maiden issuance of Philippine peso-denominated bonds in Philippine Dealing & Exchange Corp.

As of December 31, 2020 and 2019, the unamortized transaction cost of bonds payable amounted to P252.2 million and P421.7 million. Amortization of transaction costs amounting to P169.5 million and P98.5 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income (Note 19).

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with Banco de Oro (BDO) amounting to P2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%. Eton settled the outstanding loans upon their maturity in January 2018.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to P1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

In 2018, PNB entered into an unsecured term loan agreement with Bank of the Philippine Islands (BPI) amounting to P5.0 billion to finance the construction of the Eton's projects. On July 31, 2018, P0.5 billion was initially drawn and an additional P1.0 billion on September 26, 2018. The term loan with BPI has a nominal rate of 6.8% and 7.9% for the first and second drawdown, respectively. However, on March 30, 2020, Eton has paid in full the principal amount of the first two drawdowns. In the same year, Eton have availed of the loan in three drawdowns totaling P1.8 billion with a nominal rate of 5% for each of the drawdown. Principal repayments will commence a year 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, 2020 and 2019, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. Other Liabilities

	2020	2019
	<i>(In Thousands)</i>	
Bills purchased - contra (Note 8)	P1,548,226	P1,348,148
Managers' checks and demand drafts outstanding	1,302,745	1,393,535
Other dormant credits	1,258,502	1,100,311
Other deferred revenue	1,136,585	1,188,312
Payable to landowners	1,061,191	1,828,949
Customers' deposits	997,714	978,618
Provisions (Note 38)	979,067	969,106
Deposit on lease contracts	878,193	833,853
Due to Treasurer of the Philippines	675,835	681,835
Interoffice floats	537,628	1,584,289
Due to other banks	537,116	538,612
Tenants' rental deposits	428,191	560,992
Margin deposits and cash letters of credit	329,432	224,873
Withholding taxes payable	265,884	385,294
Payment order payable	263,959	333,909
Miscellaneous tax securities	223,204	414,051
Advance rentals	71,607	65,710
Insurance contract liabilities	—	5,745,820
Reserve for unearned premiums	—	1,470,274
Others	3,211,751	342,995
	15,706,830	21,989,486
Presented as noncurrent	(5,526,724)	(3,147,053)
	P10,180,106	P18,842,433

Payables to Landowners

In various dates in 2014, Eton executed a P1,061.2 million promissory note,

21. Derivative Financial Instruments

The tables below show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under “Financial assets and liabilities at FVTPL”), together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2020 and 2019 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2020				December 31, 2019			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
	<i>(In Thousands)</i>							
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	P3,819	PP556,154	48.02	P3,088,554	P23,951	P179,106	50.64	P1,042,766
JPY	—	—	—	—	2	—	0.01	666
HKD	163	—	0.13	1,584,875	—	—	—	—
CNY	—	—	—	—	39	—	0.14	2,000
GBP	—	186	1.35	800	278	—	1.31	1,700
EUR	11	30	1.22	8,216	39	2,114	1.11	11,173
SGD	—	—	—	—	3	—	0.74	23,394
AUD	2,373	—	0.76	68,028	—	—	—	—
PHP	123	—	1.00	2,401,273	—	—	—	—
SELL:								
USD	212,405	120	48.02	877,320	280,652	8,432	50.64	1,677,221
CAD	91	84	0.78	9,461	—	809	0.77	1,500
GBP	1,163	—	1.35	2,500	176	211	1.31	5,150
HKD	19	51	0.13	726,829	—	7,010	0.13	399,627
EUR	—	3,823	1.22	16,700	4,613	51	1.11	28,691
JPY	12	665	0.01	1,170,000	2,869	66	0.01	1,152,909
SGD	—	440	0.75	708	—	—	—	—
AUD	—	200	0.76	400	—	27	0.70	100
NZD	63	—	0.71	350	—	—	—	—
PHP	3	23	1.00	7,023	—	—	—	—
Interest rate swaps	150,408	139,463	—	—	60,418	47,687	—	—
	P370,653	P701,239			P373,040	P245,513		

* The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.

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

	2020	2019
	<i>(In Thousands)</i>	
Balance at beginning of year		
Derivative assets	P373,040	P574,629
Derivative liabilities	245,619	470,649
	127,421	103,980
Changes in fair value		
Currency forwards and spots*	(459,964)	(663,118)
Interest rate swaps and warrants**	(2,532)	(3,733)
	(462,496)	(666,851)
Availments	4,489	690,292
Balance at end of year		
Derivative assets	370,653	373,040
Derivative liabilities	701,239	245,619
	(P330,586)	P127,421

* 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 securities gains - net” 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	
<i>Parent Company</i>	<i>Associates</i>
Tangent	APLI
	AB HPI
	PMFTC
<i>Subsidiaries</i>	
TDI and Subsidiaries	VMC
AAC	
ADI	
TBI	<i>Joint Ventures</i>
	ABI Pascual Holdings
ABI and Subsidiaries	ABI Pascual Foods
AB Nutribev	AEPDC
Agua Vida Systems, Inc.	
Asia Pacific Beverage Pte Ltd	<i>Entities Under Common Control</i>
Asia Pacific Beverages Myanmar Company Limited	Ascot Holdings, Inc.
Interbev	Basic Holdings Corporation
Packageworld	Billinge Investments Limited
Waterich	Bright Able Holdings Ltd.
FTC	Complete Best Development Ltd.
Shareholdings	Cormack Investments Ltd
Saturn	Cosmic Holdings Corp.
Paramount and Subsidiaries	Cube Factor Holdings, Inc.
Eton	Dyzum Distillery Inc.
BCI	Foremost Farms Inc.
ECI	Grand Cargo and Warehousing Services., Inc.
EPMC	Grandspan Development Corp.
FHI	Grandway Konstrukt, Inc.
(Forward)	

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	2020	2019	2020	2019
		<i>(In Thousands)</i>			
Parent Company	Due to related parties	P–	P–	(P15,325)	(P15,325)
	Due from related parties	–	–	509,000	509,000
Associates	Other receivables - dividends	21,751,985	9,778,726	–	–
	Trade receivables	418,772	516,812	141,405	1,197,250
	Nontrade receivables	258,057	129,980	8,928	266,985
	Account payable and other liabilities	(427,183)	(547,273)	(352,912)	(490,957)
	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture;				
	Unimpaired: With interest rates ranging from 2.20% to 9.70% with maturity terms ranging from 60 days to 12 years and payment terms of ranging from monthly to quarterly payments; with aggregate allowance for credit losses of P9.6 billion	1,895,183	1,255,819	41,772,870	39,487,080
	Finance receivables	7,331	30,656	19,456	14,298
	Trade receivables	96,523	73,199	11,675	16,590
	Other receivables	100,000	127	1,445,502	1,520,346
	Due from related parties	(2,525)	(2,035)	501	3,026
	Advances to suppliers				
	With annual rates ranging from 0.10% to 1.50% and maturity ranging from 30 days to 365 days	5,918,653	(916,094)	21,056,712	15,138,059
	Deposit liabilities	(37,852)	(80,744)	(338,562)	(376,414)
	Account payable and other liabilities	–	14,874	(50,000)	(50,000)
	Due to related parties	–	–	–	–
	Other payables	–	–	–	–

Parent Company, Subsidiaries, Associates and Joint Ventures	
Bank Holding Companies:	Harmonic Holdings Corp.
All Seasons Realty Corp.	Heritage Holdings Corp.
Allmark Holdings Corp.	Hibersham Assets Ltd.
Caravan Holdings, Corp.	High Above Properties Ltd.
Dunmore Development Corp.	Himmel Industries Inc.
Dynaworld Holdings Inc.	In Shape Group Ltd.
Fil-Care Holdings Inc.	Lapu Lapu Packaging
Ivory Holdings, Inc.	Link Great International Ltd.
Kenrock Holdings Corp.	Lucky Travel Corporation
Kentwood Development Corp.	Maxell Holdings, Corp.
La Vida Development Corp.	Negros Biochem Corporation
Leadway Holdings, Inc.	Networks Holdings & Equities, Inc.
Merit Holdings & Equities Corp.	Orient Legend Developments Ltd.
Multiple Star Holdings Corp.	Penick Group Limited
Pioneer Holdings & Equities, Inc.	Philippine Airlines, Inc.
Profound Holdings Inc.	Pol Holdings, Inc.
Purple Crystal Holdings, Inc.	Polima International Limited
Safeway Holdings & Equities Inc.	Proton Realty & Development Corporation
Society Holdings Corp.	Rapid Movers & Forwarders Co. Inc.
Solar Holdings Corp.	Sierra Holdings & Equities, Inc.
Total Holdings Corp.	Step Dragon Co. Limited
Donfar Management Ltd.	Trustmark Holdings Corporation
Fast Return Enterprises Ltd.	Upright Profits Ltd.
Fragile Touch Investments Ltd.	
Key Landmark Investments Ltd.	
Mavelstone International Ltd.	
True Success Profits Ltd.	
Uttermost Success, Ltd.	
PNB and Subsidiaries	
Mabuhay Global Holding Company Pte. Ltd.	
Mabuhay Digital Philippines, Inc.	
Mabuhay Digital Technologies, Inc.	

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	2020	2019	2018
		<i>(In Thousands)</i>		
Associates	Dividend income	P21,751,985	P9,778,726	P6,461,118
	Purchases of inventories	(427,183)	(547,273)	(624,145)
	Sales	418,772	516,812	629,886
	Leases	35,100	35,100	35,100
	Banking revenue - interest on loans and receivables	1,895,183	1,255,819	810,967
	Rent income	28,001	17,968	33,857
Entities Under Common Control	Interest income on loans and advances	7,331	23,090	36,893
	Sales of consumer products	22,688	30,656	25,578
	Other income	96,523	73,199	221,417
	Freight and handling	(17,517)	(13,802)	(12,258)
	Purchases of inventories	(6,479)	(6,336)	(3,769)
	Management and professional fees	(558,372)	(581,793)	(549,058)
Entities Under Common Control	Cost of banking services - interest expense on deposit liabilities	(99,403)	(246,104)	(189,801)
	Outside services	(71,771)	(71,668)	(71,874)
	Rent expense	(23,710)	(23,698)	(23,721)
	Cost of goods sold and services	(1,213)	(2,035)	(1,442)
	Advertising expense	–	(130)	(16,136)
Key Management	Short-term employee benefits	(587,077)	(572,547)	(707,500)
	Post-employment benefits	(70,204)	(77,652)	(77,652)

As of December 31, 2020 and 2019, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- In 2020 and 2019, the Company declared cash dividends to stockholders of which P6.5 billion and P2.4 billion, respectively were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to P21.8 billion in 2020 and P9.8 billion in 2019 (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, 2020 and 2019, the related rent receivable for the lease of land amounted to P35.1 million and P101.3 million, respectively.

- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to P423.3 million. In 2020 and 2019, ABI rendered services in favor of AB HPI related to supplies, both imported and locally-purchased, advertising expense, promotions, professional fees, engineering fee and shared expenses in the plant.

In 2020, in accordance with the Termination Deed, ABI acquired fixed assets, including beer equipment, inventories and spare parts, from AB HPI for purchase price totaling to P1.6 billion.

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.

Net retirement plan assets:

2020			2019			2018		
Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
<i>(In Thousands)</i>								
Beginning balance	P157,751	(P417,710)	(P259,959)	P201,030	(P481,494)	(P280,464)	P233,740	(P507,450)
Change in status of retirement plan	(62,878)	65,525	2,647	–	–	–	–	–
Net retirement benefits expense (income in profit or loss:								
Current service cost	16,934	(1,465)	15,469	10,478	(1,380)	9,098	18,885	–
Net interest cost	5,040	(16,381)	(11,341)	7,389	(26,178)	(18,789)	8,549	(23,948)
	21,974	(17,846)	4,128	17,867	(27,558)	(9,691)	27,434	(23,948)
Contributions	–	(8,030)	(8,030)	(655)	(3,620)	(4,275)	–	(1,733)
Benefits paid	–	–	–	(3,995)	3,995	–	(27,160)	27,160
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:								
Financial assumptions	19,040	–	19,040	32,296	–	32,296	(27,330)	–
Demographic assumptions	–	894	894	–	(8,841)	(8,841)	–	–
Experience adjustments	(10,140)	1,983	(8,157)	11,927	(911)	11,016	(5,654)	24,477
	8,900	2,877	11,777	44,223	(9,752)	34,471	(32,984)	24,477
Ending balance	P125,747	(P375,184)	(P249,437)	P258,470	(P518,429)	(P259,959)	P201,030	(P481,494)

- 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, 2020 and 2019, 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:

	2020	2019
	<i>(In Thousands)</i>	
Net retirement plan assets:		
FTC	P241,252	P246,112
LTG	6,068	8,188
TBI	2,117	3,011
TDI	–	2,648
	P249,437	P259,959
Net retirement benefits liabilities:		
PNB and subsidiaries	P1,206,350	P776,936
ABI and subsidiaries	984,644	749,049
Eton and subsidiaries	143,733	128,728
ADI	39,661	29,578
AAC	38,628	15,452
TDI	5,621	–
	P2,418,637	P1,699,743

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 benefits liabilities:

	2020			2019			2018		
	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
				<i>(In Thousands)</i>					
Beginning balance	P11,334,593	(P9,634,850)	P1,699,743	P9,239,745	(P7,601,607)	P1,638,138	P9,528,099	(P7,304,618)	P2,223,481
Change in status of retirement plan	62,878	(65,525)	(2,647)	—	—	—	—	—	—
Net retirement benefits cost in profit or loss:									
Current service cost	832,107	—	832,107	625,316	—	625,316	669,842	—	669,842
Net interest cost	445,783	(325,044)	120,739	542,042	(431,789)	110,253	365,052	(258,042)	107,010
Past service cost	25,454	—	25,454	3,774	—	3,774	361,144	—	361,144
	1,303,344	(325,044)	978,300	1,171,132	(431,789)	739,343	1,396,038	(258,042)	1,137,996
Contributions	—	(1,117,108)	(1,117,108)	(1,000)	(1,904,683)	(1,905,683)	—	(759,541)	(759,541)
Benefits paid from plan assets	(537,982)	537,982	—	(419,579)	419,579	—	(620,292)	620,292	—
Benefits paid directly from book reserves	(1,440)	—	(1,440)	(20,590)	—	(20,590)	(12)	—	(12)
Settlement benefits paid directly by the Company	(6,092)	—	(6,092)	—	—	—	—	—	—
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	1,052,016	—	1,052,016	1,322,604	—	1,322,604	(1,101,246)	—	(1,101,246)
Demographic assumptions	(55,142)	—	(55,142)	(26,893)	—	(26,893)	(55,844)	—	(55,844)
Experience adjustments	(243,410)	128,580	(114,830)	69,174	(116,350)	(47,176)	93,002	100,302	193,304
	753,464	128,580	882,044	1,364,885	(116,350)	1,248,535	(1,064,088)	100,302	(963,786)
Effect of disposal group classified as held for sale (Note 37)	(62,899)	48,736	(14,163)	—	—	—	—	—	—
Ending balance	P12,845,866	(P10,427,229)	P2,418,637	P11,334,593	(P9,634,850)	P1,699,743	P9,239,745	(P7,601,607)	P1,638,138

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

	2020	2019
	<i>(In Thousands)</i>	
Cash and cash equivalents	P4,030,216	P2,280,031
Receivables	230,309	335,399
Equity investments:		
Financial institutions	748,372	598,164
Other	844,956	1,363,103
Debt investments:		
Investment in private debt securities	2,542,429	3,407,625
Investments in government securities	1,745,693	1,764,116
Others	660,440	404,841
Fair value of plan assets	P10,802,415	P10,153,279

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

	2020	2019
Cash and cash equivalents	37%	23%
Receivables	2%	3%
Equity investments	15%	19%
Debt investments	40%	51%
Others	6%	4%
Fair value of plan assets	100%	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

	2020	2019	2018
Discount rate	3.4%-3.8%	4.7%-5.1%	7.2%-8.1%
Future salary increases	3.0%-10.0%	4.0%-8.0%	4.0%-8.0%

As of December 31, 2020, 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)*:

	2020	2019
	<i>(In Thousands)</i>	
	Increase (Decrease) in Present Value of Defined Benefit Obligations	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	0.50% (P788,245)	0.50% (P821,968)
	-0.50% 854,060	-0.50% 263,822
Future salary increases	1.00% 986,359	1.00% 293,350
	-1.00% (537,972)	-1.00% (1,015,028)

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)*:

	2020	2019
One year and less	P1,569,917	P1,348,317
More than one year up to five years	4,807,642	5,106,816
More than five years up to 10 years	4,801,580	4,775,894
More than 10 years up to 15 years	4,081,876	3,326,514
More than 15 years	51,558,308	50,368,706

The Group expects to contribute P0.5 billion to the defined benefit pension plan in 2021. The average duration of the defined benefit obligations at the

end of the reporting period range from 16.0 years as of December 31, 2020 and 2019.

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, 2020 and 2019 for the Group includes investments in the PNB shares of stock with fair value amounting to P250.2 million and P305.0 million classified as financial assets at FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

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

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

24. Revenue and Cost of Goods Sold and Services

Revenue consist of:

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Banking revenue (Note 5)	P54,800,902	P56,522,642	P40,172,558
Sale of consumer goods	37,227,642	34,495,786	32,188,132
Rental income (Note 13)	1,757,701	1,707,833	1,494,724
Real estate sales	641,689	1,424,598	1,704,011
	P94,427,934	P94,150,859	P75,559,425

Disaggregated 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, 2020 *(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	P37,227,642	P—	P—	P37,227,642
Service fees and commission income	4,684,572	—	—	4,684,572
Real estate sales	—	641,689	—	641,689
Interest income	—	—	46,778,690	46,778,690
Rental income	—	—	1,757,701	1,757,701
Trading and securities gains - net	—	—	3,337,640	3,337,640
	P41,912,214	P641,689	P51,874,031	P94,427,934

Banking revenue consists of:

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Interest income on:			
Loans and receivables	P37,180,110	P39,618,364	P29,966,048
Trading and investment securities (Note 21)	7,162,523	9,357,556	4,653,756
Deposits with banks and others	2,192,050	635,086	775,820
Interbank loans receivable	244,007	668,211	379,378
	46,778,690	50,279,217	35,775,002
Service fees and commission income	4,684,572	5,176,406	4,251,692
Trading and securities gains - net	3,337,640	1,067,019	145,864
	P54,800,902	P56,522,642	P40,172,558

Sale of consumer goods consists of:

	2020	2019	2018
	<i>(In Thousands)</i>		
Gross sales	P39,638,196	P37,323,117	P34,671,217
Less sales returns, discounts and allowances	2,410,554	2,827,331	2,483,085
	P37,227,642	P34,495,786	P32,188,132

Cost of goods sold and services consists of:

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	P14,071,399	P14,326,602	P17,046,895
Taxes and licenses	9,874,192	6,141,929	1,095,280
Depreciation and amortization (Note 12)	1,589,194	1,578,423	1,457,186
Personnel costs	1,094,204	959,764	952,168
Fuel and power	1,037,620	1,192,723	1,156,867
Communication, light and water	562,574	820,024	803,313
Freight and handling	499,292	435,428	278,824
Repairs and maintenance	480,955	512,175	440,679
Outside services	471,877	501,097	469,040
Others	425,294	530,317	1,097,523
	30,106,601	26,996,482	24,797,775
Cost of banking services	12,046,147	18,696,082	9,584,973
Cost of real estate sales (Note 9)	239,524	663,789	1,209,101
Cost of rental income (Note 13)	466,592	444,087	373,553
Cost of goods sold and services	P42,858,864	P46,802,440	P35,965,402

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

Cost of banking services consist of:

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Interest expense on:			
Deposit liabilities (Note 15)	P7,311,731	P13,577,503	P7,672,146
Bills payable and other borrowings (Notes 7 and 17)	2,904,528	2,184,918	773,082
Bonds payable	846,642	1,945,497	662,340
	11,062,901	17,707,918	9,107,568
Services fees and commission expense	983,246	988,164	477,405
	P12,046,147	P18,696,082	P9,584,973

25. Selling Expenses

	2020	2019	2018
	<i>(In Thousands)</i>		
Advertising and promotions	P719,197	P1,458,151	P1,222,569
Freight and handling	526,280	560,738	511,970
Depreciation and amortization (Note 12)	328,123	292,805	321,754
Personnel costs	143,312	130,180	128,334
Management, consulting and professional fees	109,230	170,507	154,138
Royalties	60,439	72,239	63,680
Commissions	28,568	101,545	85,455
Materials and consumables	19,820	37,901	19,485
Communication, light and water	15,009	14,271	12,467
Repairs and maintenance	2,818	32,860	12,723
Fuel and oil	2,287	28,939	59,270
Others	96,031	111,288	108,542
	P2,051,114	P3,011,424	P2,700,387

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

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Personnel costs	P11,057,462	P10,265,619	P10,145,421
Provision for credit losses (Note 8)	16,899,896	2,921,197	1,694,883
Taxes and licenses	4,993,514	5,108,681	4,061,037
Depreciation and amortization (Notes 12, 13 and 14)	3,413,200	3,186,759	2,146,521
Insurance	1,853,290	1,874,045	1,622,893
Outside services	1,823,620	1,849,011	1,692,528
Loss on loan modification	1,587,605	—	—
Information technology	1,448,623	811,574	561,597
Occupancy	1,000,948	1,023,915	1,754,360
Management, consulting and professional fees	993,329	1,030,234	947,377
Marketing and promotional	738,387	1,137,757	1,170,997
Travel and transportation	375,254	449,091	397,404
Materials and consumables	304,952	286,716	313,388
(Forward)			

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Communication, light and water	P216,714	P310,958	P301,802
Repairs and maintenance	164,065	230,192	249,940
Litigation	37,271	326,588	73,787
Freight and handling	30,973	78,884	69,940
Fuel and oil	20,333	30,438	12,001
Reversal of legal cases and other losses - net (Notes 13 and 38)	—	—	(240,110)
Others	937,832	674,762	1,326,511
	P47,897,268	P31,596,421	P28,302,277

'Loss on loan modifications' pertains to the adjustment for the changes in expected cash flows of credit exposures, as a result of modifications in the original terms and conditions of the loan which include, but not limited to, changes in interest rates, principal amount, maturity date, and payment terms. In 2020, PNB accommodated modifications in the terms and conditions of certain loans of borrowers, which have been directly impacted by the COVID-19 pandemic. The loss is computed as the difference between the gross carrying amount of the loan and the present value of the modified contractual cash flows, discounted at the original effective interest rate of the loan. Subsequent accretion to interest income in 2020 amounted to the P901.7 million.

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:

	2020	2019	2018
	<i>(In Thousands)</i>		
Finance costs (Note 19):			
Short-term debts	P185,900	P166,018	P100,722
Unsecured term loan and notes payable (Note 20)	155,567	284,823	44,735
	P341,467	P450,841	P145,457
Finance income:			
Cash and other cash items (Note 5)	P37,892	P138,630	P172,212
Interest-bearing contracts receivable (Note 8)	4,529	7,623	14,324
FVTPL (Note 6)	—	—	20,105
	P42,421	P146,253	P206,641

28. Other Income (Charges)

	2020	2019 (As Restated, Note 37)	2018 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Provision for probable losses (Notes 14 and 38)	P677,089	P—	P—
Rental income and dues (Note 13)	664,229	892,391	540,612
Income from assets acquired	258,708	100,214	225,683
Marketing allowance and income from wire transfers	241,353	344,090	479,053
Rooms and other operated departments	205,183	181,862	93,246
Recoveries from charged off assets	203,750	76,362	58,584
Net gains on sale or exchange of assets	196,019	814,920	6,086,834
Dividend income	51,815	145,704	87,517
Reversal of provision for expected credit loss (Note 8)	(45,974)	(142,017)	—
Management fees	31,916	24,170	—
Gain on retirement	17,853	14,838	6,644
Mark-to-market gain on financial assets designated at FVTPL (Note 6)	—	17,800	17,234
Others	(598,972)	373,263	242,501
	P1,902,969	P2,843,597	P7,837,908

a. Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2020, 2019 and 2018 amounting to P11.7 million, P48.6 million and P5,703.5 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:

	2020	2019	
	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax Liabilities ⁽²⁾	Net Deferred Income Tax Assets ⁽³⁾
	<i>(In Thousands)</i>		
<i>Recognized directly in the consolidated statements of income:</i>			
Deferred income tax assets on:			
Allowance for impairment loss on:			
Receivables	P11,150,369	P93,393	P5,764,478
Inventories	4,273	10,742	1,440
Property, plant and equipment	—	—	—
Allowance for probable losses on excise taxes	—	87,899	—
Accumulated depreciation on investment properties	729,869	—	836,233
Unrealized losses on:			
Inventories on hand	—	7,199	—
Sale of property to a subsidiary	384,523	4,529	384,523
Financial assets at FVPL and at FVTOCI	—	—	29,450
Deferred rent income	130,213	13,481	234,397
Net retirement benefits liabilities	912,507	289,093	586,029
Reserves and others	545,126	343,402	47,379
Advance rentals	—	17,747	5,609
Accrued expenses	580,572	25,965	488,322
Difference between accounting and tax carrying amount of property, plant and equipment	30,289	—	—
Unamortized past service cost	9,009	4,793	4,474
Unrealized forex losses	5,067	2,996	104
Difference between right-of-use assets and lease liabilities	7,458	79,489	1,044
	14,489,275	980,728	8,383,482
Deferred income tax liabilities on:			
Fair value gain on investment properties	(1,043,165)	—	(1,164,193)
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	(329,723)	(33,472)	(405,545)
Gain on re-measurement of a previously held interest	(246,651)	—	(164,429)
Unrealized foreign exchange gains	(97,033)	(153)	(329,047)
Borrowing cost capitalized to property, plant, and equipment	(2,983)	(171,826)	(3,175)
Deferred rental income	—	(91,488)	(2,536)
Difference between tax and book basis of accounting for real estate transactions	(3,157)	(111,376)	(6,976)
Unamortized debt cost	—	(4,751)	—
Gain on asset share swap	—	(443,110)	—
Net retirement plan assets	(1,912)	(116,336)	(771)
Net changes in fair values of FVTPL financial assets	(56,931)	(7)	(78,637)
Others	(110,388)	(19,270)	(52,793)
	(1,891,943)	(991,789)	(2,208,102)
	12,597,332	(11,061)	6,175,380
<i>Recognized directly in equity:</i>			
Deferred income tax assets on:			
Remeasurement losses on retirement benefits	5,233	56,304	2,524
Deferred income tax liabilities on:			
Revaluation increment on property, plant and equipment	(3,711,174)	(8,309,673)	(3,777,969)
Remeasurement gains on defined benefit plans	(2,360)	(16,502)	(13,264)
Unrealized gains on changes in fair value of financial assets at FVTOCI	—	(46,480)	—
	(3,713,534)	(8,372,655)	(3,791,233)
	(3,708,301)	(8,316,351)	(3,788,709)
	P8,889,031	(P8,327,412)	P2,386,671

(1) Pertain to IPI, PWI, ABNC, AVSI, ADI, Eton and PNB
(2) Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC
(3) Pertain to IPI, ADI, Eton and PNB
(4) Pertain to LTG, Saturn, PLI, AAC, TDI, ABI, PWI and FTC

Details of the Group's net deferred income tax assets and liabilities are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Net deferred income tax assets:		
PNB and subsidiaries	P8,437,787	P1,899,898
Eton and subsidiaries	393,256	394,127
ABI and subsidiaries	38,382	76,646
TDI and subsidiaries	18,080	15,830
Bank holding companies	1,526	170
	P8,889,031	P2,386,671
Net deferred income tax liabilities:		
PNB and subsidiaries	P7,305,940	P7,257,083
Paramount	443,110	433,110
TDI and subsidiaries	327,321	294,156
ABI and subsidiaries	106,537	284,217
FTC	89,023	103,082
Eton and subsidiaries	35,724	63,180
Saturn	3,035	4,478
LTG	1,009	2,562
Bank holding companies	15,713	68,260
	P8,327,412	P8,510,128

b. Provision for current income tax consists of:

	2020	2019	2018
	<i>(In Thousands)</i>		
RCIT	P4,481,774	P2,711,115	P3,947,978
MCIT	2,080	2,251	6,750
Final tax	1,513,953	1,497,703	845,256
Provision for current income tax	P5,997,807	P4,211,069	P4,799,984

c. As of December 31, 2020 and 2019, 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:

	2020	2019
	<i>(In Thousands)</i>	
Net retirement benefits liability	P1,213,544	P819,428
Allowance for credit losses	509,482	7,512,006
Derivative liabilities	558,220	180,759
Unamortized past service cost	338,594	1,908,144
NOLCO	704,639	543,149
Excess MCIT	30,422	7,314
Accrued expenses	—	58,711
Allowance for inventory obsolescence	—	9,938
Others	190,070	261,182

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2014	P80,130	P–	(P31,967)	P48,163	N/A
2017	78,503	–	(78,503)	–	2020
2018	226,578	(9,139)	–	217,439	2021
2019	157,938	–	–	157,938	2022
2020	281,099	–	–	281,099	2025
	P824,248	(P9,139)	(P110,470)	P704,639	

On September 30, 2020, the BIR issues Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of “Bayanihan to Recover As One Act” which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Group has incurred NOLCO in taxable year 2020 amounting to P0.3 billion that can be carried forward and deducted from future taxable profits and income tax until 2025.

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

Year Incurred	Amount	Applied	Expired	Balance	Expiry Year
2017	P2,985	P–	(P2,985)	P–	2020
2018	3,404	–	–	3,404	2021
2019	925	–	–	925	2022
2020	26,093	–	–	26,093	2023
	P33,407	P–	(P2,985)	P30,422	

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:

	2020	2019	2018
	<i>(In Thousands)</i>		
Provision for income tax at statutory income tax rate from:			
Continuing operations	P6,475,984	P9,342,840	P7,664,410
Discontinued operations	26,400	36,082	58,983
	6,502,384	9,378,922	7,723,393
Adjustments resulting from:			
Income subjected to final tax	(6,424,101)	(1,151,482)	(982,900)
Non-deductible expenses	5,936,027	1,803,030	314,284
Nontaxable income	(643,033)	(3,743,152)	(549,727)
Effect of availment of ITH	(47,490)	(51,911)	–
Equity in net earnings of associates	(5,284,472)	(1,539,675)	(1,717,520)
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	(582,527)	(916,440)	64,685
Difference of itemized deduction against 40% of taxable income	–	(53,648)	–
Non-deductible deficiency taxes	–	25,904	–
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	–	(24,949)	(37,435)
Others	(108,290)	(29,285)	(21,619)
Provision for income tax	(P651,502)	P3,697,314	P4,793,161

30. Equity

Capital Stock

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

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

a. Capital stock is held by a total of 373 and 374 stockholders as of December 31, 2020 and 2019, respectively.

b. Track record of registration:

Date	Number of Shares Licensed	Issue/Offer Price
August 1948	100,000	P1.00
November 1958	500,000	1.00
December 1961	1,000,000	1.00
March 1966	2,000,000	1.00
March 1966	6,000,000	1.00
October 1995	247,500,000	1.00
October 2011	398,138,889	4.22
April 2013	1,840,000,000	20.50

In April 2013, LTG issued 1,840.0 million shares for P37.7 billion, where excess over par value amounting to P35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to P1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to P59.0 million were charged directly to “General and administrative expenses”.

Retained Earnings and Dividends

a. The Company's BOD approved the declaration and distribution of the following cash dividends:

Date of declaration	Date of record	Date of payment	Dividend per share	Amount
November 23, 2020	December 9, 2020	December 14, 2020	P0.15	P1,623,208,334
August 14, 2020	September 2, 2020	September 8, 2020	0.23	2,488,919,445
May 22, 2020	June 8, 2020	June 17, 2020	0.15	1,623,208,333
-do-	-do-	-do-	0.28	3,029,988,889
				P8,765,325,001
April 10, 2019	April 29, 2019	May 8, 2019	0.15	P3,246,416,667

b. Retained earnings include undistributed earnings amounting to P98.1 billion in 2020, P76.4 billion in 2019 and P76.4 billion in 2018, 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, 2020 amounted to P41.5 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, 2020 and 2019.

Preferred Shares of Subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD's and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of P1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22). Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to P7.4 billion presented under “Preferred shares of subsidiary issued to Parent Company” were issued to Tangent. Unissued preferred shares amounting to P6.0 billion which are pending approval of the Philippine SEC are presented under “Deposit for future stock subscription” as of December 31, 2013. Upon approval of the Philippine SEC on various dates in 2014, the remaining preferred shares of P6.0 billion and additional conversion of advances to preferred shares during the year of P4.7 billion were issued to Tangent. As of December 31, 2020 and 2019, preferred shares of the subsidiary issued to the Parent Company amounted to P18.1 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 consist of:

	2020	2019
	<i>(In Thousands)</i>	
Equity adjustments arising from business combination under common control (Note 1)	P445,113	P445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	(2,262,606)	413,770
Equity adjustment in aggregate reserves on life insurance policies	(593,566)	–
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	186,376	(543)
	(P2,058,370)	P1,024,653

Shares of Stock of the Company Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to P12.5 million as of December 31, 2020 and 2019 and 76.5 million shares owned by Saturn amounting to P150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at P4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to P193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2020	2019	2018
	<i>(In Thousands)</i>		
Balance as of January 1, as previously reported	P67,086,030	P58,223,689	P47,000,912
Effect of adoption of:			
PFRS 9	–	–	(712,042)
PFRS 15	–	–	(106)
Balance as of January 1, as adjusted	67,086,030	58,223,689	46,288,764
Net income attributable to non-controlling interests	1,304,120	4,448,233	4,363,483
Share in other comprehensive income, net of deferred income tax effect:			
Net change in aggregate reserves on life insurance policies	(457,555)	–	–
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	(342,880)	(305,881)	254,047
Revaluation increment on property plant and equipment	(274,064)	(170,223)	7,041,741
Cumulative translation adjustments	(127,530)	(456,101)	282,883
Net changes in AFS investments (Note 7)	(85,398)	2,805,235	74,783
Reserves of disposal group classified as held for sale	394,197	–	(62,655)
Dividends received	(85,645)	(3,372)	(19,357)
Acquisition of shares of subsidiaries from the Controlling Shareholders	2,376,784	2,539,185	–
Other equity reserves	336,283	5,265	–
Balance as of December 31	P70,124,342	P67,086,030	P58,223,689

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:

	2020	2019	2018
	<i>(In Thousands)</i>		
Net income attributable to equity holders of the Company	P21,021,996	P23,117,524	P16,194,778
Divided by weighted-average number of shares	10,821,389	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	P1.94	P2.14	P1.50

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

	2020	2019	2018
	<i>(In Thousands)</i>		
Net income from continuing operations attributable to equity holders of the Company	P20,983,832	P23,060,154	P16,318,996
Divided by weighted-average number of shares	10,821,389	10,821,389	10,821,389
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	P1.94	P2.13	P1.51

There are no potential common shares with dilutive effect on the basic earnings per share in 2020, 2019 and 2018.

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
- Liquidity Risk
- Market Risk
- Operational Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Interest Rate Risk in Banking Book (IRRBB)
- Strategic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

For the banking segment, credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk.The banking segment manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the bank segment in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
 - a. portfolio growth
 - b. movement of loan portfolio
 - 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 bank segment 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			
	2020			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
<i>(In Millions)</i>				
Securities held under agreements to resell	P15,819	P16,499	P--	P15,819
Loans and receivables:				
Receivables from customers*:				
Corporates	505,180	193,781	412,862	92,318
Local government units (LGU)	6,372	--	6,372	--
Credit Cards	9,943	--	9,943	--
Retail small and medium enterprises (SME)	10,631	9,884	6,123	4,508
Housing Loans	22,738	5,586	19,267	3,471
Auto Loans	10,055	4,907	7,119	2,936
Others	19,871	17,974	14,025	5,846
Other receivables	14,507	--	14,507	--
	P615,116	P248,631	P490,218	P124,898

*Receivables from customers exclude residual value of the leased asset (Note 8).

	Consolidated			
	2019			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
<i>(In Millions)</i>				
Securities held under agreements to resell	P2,518	P2,518	P--	P2,518
Loans and receivables:				
Receivables from customers*:				
Corporates	540,584	287,490	378,128	162,456
LGU	6,729	130	6,694	35
Credit Cards	14,264	--	14,264	--
Retail SME	18,943	28,248	5,494	13,449
Housing Loans	32,017	28,805	12,632	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
	P659,786	P384,830	P447,949	P211,837

*Receivables from customers exclude residual value of the leased asset (Note 8).

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

For each CRR, the banking segment sets limits per client or counterparty based on the regulatory Single Borrowers Limit.

For trading and investment securities, the banking segment 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:

	2020	2019
<i>(In Millions)</i>		
Philippines	P970,054	P900,501
Asia (excluding the Philippines)	92,583	95,755
USA and Canada	35,404	16,555
Other European Union Countries	11,606	6,521
United Kingdom	18,198	23,753
Middle East	2,410	2,468
	P1,130,255	P1,045,553

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:

	2020			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
<i>(In Millions)</i>				
Primary target industry:				
Financial intermediaries	P91,848	P41,346	P60,169	P193,363
Wholesale and retail	82,953	--	--	82,953
Electricity, gas and water	72,566	4,081	--	76,647
Transport, storage and communication	54,836	51	--	54,887
Manufacturing	46,797	1,579	--	48,376
Public administration and defense	12,463	--	--	12,463
Agriculture, hunting and forestry	9,056	--	--	9,056
Secondary target industry:				
Government	5,714	170,983	217,089	393,786
Real estate, renting and business activities	97,007	14,858	--	111,865
Construction	34,184	--	--	34,184
Others**	92,570	19,880	225	112,675
	P599,994	P252,778	P277,483	P1,130,255

* Loans and receivables exclude residual value of the leased asset (Note 8).

** 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".

	2019			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
<i>(In Millions)</i>				
Primary target industry:				
Financial intermediaries	P106,952	P23,769	P42,590	P173,311
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
	P657,268	P237,074	P151,211	P1,045,553

* Loans and receivables exclude residual value of the leased asset (Note 8).

** 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 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 portfolio is evaluated and monitored using external ratings and internal credit risk rating system. The banking segment maintains a two-dimensional risk rating structure: that is, there is a borrower risk rating (BRR) and a facility risk rating (FRR).

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.

FRR, 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
High	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.
S&P Equivalent Global Rating: AAA to BBB-	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 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
Standard	<p>BRR 13-15 Average Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility.</p> <p>BRR 16-18 Acceptable Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility.</p> <p>BRR 19-20 Vulnerable Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility.</p>
Substandard	<p>BRR 21-22 Weak Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments. Default is more than a possibility.</p> <p>BRR 23-25 Watchlist Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.</p>
Impaired	<p>BRR 26 Default Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.</p>
S&P Equivalent Global Rating: BB+ to BB-	
S&P Equivalent Global Rating: B+ to CCC-	
S&P Equivalent Global Rating: D	

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:

	2020			
	Stage 1	Stage 2	Stage 3	Total
	(In Millions)			
Subject to CRR				
Non-Retail - Corporate				
High	P147,485	P84	P-	P147,569
Standard	252,549	11,015	-	263,564
Substandard	46,658	18,884	-	65,542
Impaired	95	297	50,516	50,908
	446,787	30,280	50,516	527,583
Subject to Scoring & Unrated				
Non-Retail	8,077	7	25	8,109
Corporate	1,687	-	-	1,687
LGU	6,390	7	25	6,422
Retail	40,640	2,161	15,326	58,127
Auto Loans	7,792	600	2,693	11,085
Housing Loans	16,040	1,042	8,073	25,155
Retail SME	7,609	319	1,428	9,356
Credit Card	9,199	200	3,132	12,531
Others	14,239	1,532	5,338	21,109
	62,956	3,701	20,689	87,346
	P509,743	P33,981	P71,205	P614,929
	2019			
	Stage 1	Stage 2	Stage 3	Total
	(In Millions)			
Subject to CRR				
Non-Retail - Corporate				
High	P1,568	P-	P-	P1,568
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
	P607,855	P19,685	P23,275	P650,815

The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	Consolidated				
	2020				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
	(In Millions)				
LGU	P25	P-	P-	P-	P25
Credit Card	6	103	1,150	1,930	3,189
Retail SME	1,017	57	118	472	1,664
Housing Loans	171	24	50	8,755	9,000
Auto Loans	252	65	103	2,863	3,283
Others	1,914	58	67	5,190	7,229
Total	P3,385	P307	P1,488	P19,210	P24,390
	Consolidated				
	2019				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
	(In Millions)				
LGU	P-	P69	P-	P27	P96
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	P1,011	P3,602	P2,700	P9,167	P16,480

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, 2020					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
	(In Millions)					
Due from BSP ^{1/}	P-	P-	P-	P-	P202,129	P202,129
Due from other banks	5,814	10,124	1,792	17,730	2,003	19,733
Interbank loans receivables	13,867	24,308	1,526	39,701	-	39,701
Securities held under agreements to resell	-	-	-	-	15,819	15,819
Financial assets at FVTOCI						
Government securities	85	-	90,824	90,909	20,442	111,351
Private debt securities	405	3,232	1,976	5,613	15,806	21,419
Quoted equity securities	-	-	119	119	588	707
Unquoted equity securities	-	-	421	421	321	742
Investment securities at amortized cost:						
Government securities	120	188	42,541	42,849	227	42,714
Private debt securities	1,114	25,551	7,650	34,315	22,190	56,505
Financial asset at amortized cost:						
Others ^{2/}	-	-	-	-	17,813	17,813

^{1/} Due from BSP^{1/} 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)

	December 31, 2019					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
	(In Millions)					
Due from BSP ^{1/}	P-	P-	P-	P-	P105,982	P105,982
Due from other banks	5,038	3,090	7,990	16,118	1,640	17,758
Interbank loans receivables	9,595	13,182	435	23,212	1,620	24,832
Securities held under agreements to resell	-	-	-	-	2,518	2,518
Financial assets at FVTOCI						
Government securities	460	2,125	88,335	90,920	621	91,541
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

^{1/} Due from BSP^{1/} 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, 2020					
	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	P25,136	P-	P-	P-	P-	P25,136
Due from BSP and other banks	227,072	-	-	-	-	227,072
Interbank loans receivable	33,212	4,405	10	748	1,128	39,503
Securities held under agreements to resell	15,825	-	-	-	-	15,825
Financial assets at FVTPL:						
Government securities	77	180	219	365	21,496	22,337
Private debt securities	-	19	79	98	5,098	5,294
Equity securities	8	17	5	22	1,156	1,208
Investment in UITFs	3	-	-	-	-	3
Derivative assets:						
Gross contractual receivable	44,836	9,158	354	28	143	54,519
Gross contractual payable	(44,728)	(9,045)	(347)	(36)	(165)	(54,321)
	108	113	7	(8)	(22)	198
Financial Assets at FVTOCI:						
Government securities	46,310	4,117	499	4,497	66,559	121,982
Private debt securities	507	424	1,486	3,328	18,901	24,646
Equity securities	-	8	8	16	1,008	1,040
Investment securities at amortized cost						
Government securities	4,877	743	5,578	2,249	32,109	45,556
Private debt securities	133	3,995	4,245	16,981	43,692	69,046
Financial assets at amortized cost:						
Receivables from customers	95,695	77,648	33,398	23,273	484,755	714,769
Other receivables	9,815	186	703	188	7,507	18,399
Other assets	84	-	-	2	14	100
Total financial assets	P458,862	P91,855	P46,237	P51,759	P683,401	P1,332,114
Financial Liabilities						
Deposit liabilities:						
Demand	P203,250	P-	P-	P-	P-	P203,250
Savings	291,773	-	-	-	-	291,773
Time and LTNCDS	218,590	93,746	15,130	17,667	60,033	405,166
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	35,770	12,482	11,301	1,517	122	61,192
Gross contractual receivable	(35,497)	(12,426)	(11,063)	(1,476)	(165)	(60,627)
	273	56	238	41	(43)	565
Bills and acceptances payable	45,293	25,985	237	1,553	14,242	87,310
Bonds payable	-	218	15,148	1,057	58,700	75,123
Accrued interest payable and accrued other expenses payable	222	668	416	501	775	2,582
Other liabilities	9,342	208	509	461	1,878	12,398
Total financial liabilities	P768,743	P120,881	P31,678	P21,280	P135,585	P1,078,167

	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	P30,501	P–	P–	P–	P–	P30,501
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	P310,443	P103,015	P51,039	P38,952	P677,559	P1,181,008
Financial Liabilities						
Deposit liabilities:						
Demand	P172,229	P–	P–	P–	P–	P172,229
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	P749,702	P66,785	P20,840	P10,170	P143,198	P990,695

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 banking segment 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, 2020	P9.85	P491.44	P22.92	P524.21
Average Daily	9.92	245.63	28.16	283.71
Highest	26.22	608.54	36.81	671.57
Lowest	1.40	46.64	22.92	70.96
December 29, 2019	13.13	278.29	26.39	317.81
Average Daily	8.98	472.54	17.44	498.96
Highest	27.50	1160.34	34.89	1,222.73
Lowest	0.54	89.02	2.32	91.88

* 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 day

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 Group uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Group repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Group BOD sets a limit on the level of EaR exposure tolerable to the Group. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the banking segment:

	2020					
	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	P138,408	P1,393	P441	P461	P81,324	P222,027
Interbank loans receivable and securities held under agreements to resell	49,389	4,272	1,107	751	–	55,519
Receivables from customers and other receivables - gross**	118,843	79,871	18,557	15,140	129,524	361,935
Total financial assets	P306,640	P85,536	P20,105	P16,352	P210,848	P639,481
Financial Liabilities*						
Deposit liabilities:						
Savings	P79,342	P46,277	P13,998	P20,351	P265,643	P425,611
Time***	158,209	60,634	5,073	4,600	8,179	236,695
Bonds payable	–	–	13,853	–	50,204	64,057
Bills and acceptances payable	53,199	32,134	354	225	1,248	87,160
Total financial liabilities	P290,750	P139,045	P33,278	P25,176	P325,274	P813,523
Repricing gap	P15,890	(P53,509)	(P13,173)	(P8,824)	(P114,426)	(P174,042)
Cumulative gap	15,890	(37,617)	(50,790)	(59,612)	(174,038)	–

* Financial instruments that are not subject to repricing/rollforward were excluded.
** Receivables from customers excludes residual value of leased assets (Note 8).
***Excludes LTNCO.

	2019					Total
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	
	(In Millions)					
Financial Assets*						
Due from BSP and other banks	P27,273	P1,575	P564	P128	P94,140	P123,680
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	P197,810	P63,642	P28,639	P8,147	P193,258	P491,496
Financial Liabilities*						
Deposit liabilities:						
Savings	P107,429	P38,894	P20,766	P13,055	P211,626	P391,770
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	P290,643	P90,044	P32,463	P23,751	P307,342	P744,243
Repricing gap	(P92,833)	(P26,402)	(P3,824)	(P15,604)	(P114,084)	(P252,747)
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 8).
***Excludes LTNCO.

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:

	2020		2019	
	Income Before Income Tax	Equity	Income Before Income Tax	Equity
(In Millions)				
+50bps	(P189)	(P189)	P574	P574
-50bps	189	189	(574)	(574)
+100bps	(378)	(378)	1,147	1,147
-100bps	378	378	(1,147)	(1,147)

As one of the long-term goals in the risk management process, the banking segment has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the PNB 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, 2020			December 31, 2019		
	USD	Others*	Total	USD	Others	Total
(In Millions)						
Assets						
COCI and due from BSP	P151	P467	P618	P149	P335	P484
Due from other banks	10,191	5,296	15,487	9,638	6,084	15,722
Interbank loans and securities held under agreements to resell	4,135	430	4,565	4,880	2,095	6,975
Loans and receivables	24,026	11,426	35,452	22,726	11,047	33,773
Financial Assets at FVTPL	177	–	177	352	–	352
AFS investments/Financial Assets at FVTOCI	1,948	1,302	3,250	1,434	503	1,937
Financial assets at amortized cost/HTM investments	126	1,085	1,211	10,061	–	10,061
Other assets	11,342	1,175	12,517	5,402	2,686	8,088
Total assets	52,096	21,181	73,277	54,642	22,750	77,392
Liabilities						
Deposit liabilities	7,198	7,474	14,672	7,364	5,194	12,558
Derivative liabilities	7	7	14	7	7	14
Bills and acceptances payable	62,015	286	62,301	27,942	13,298	41,240
Accrued taxes, interest and other expenses	95	10	105	154	32	186
Other liabilities	3,952	2,011	5,963	1,217	945	2,162
Total liabilities	73,267	9,788	83,055	36,684	19,476	56,160
Net Exposure	(P21,171)	P11,393	(P9,778)	P17,958	P3,274	P21,232

* 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 (KRW), 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, 2020:

	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	P1,542.6	P1,954.5	P7,737.1	P2,472.8	P2,672.8	P1,600.3	P3,429.3	P17,912.3
Expected credit loss	P-	P-	P0.6	P12.3	P10.4	P45.2	P235.0	P303.6

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		
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	P3,322.7	P2,029.4	P6,934.0	P2,097.7	P2,327.6	P1,274.3	P2,552.3	P15,185.9
Expected credit loss	P-	P-	P1.2	P5.8	P10.1	P14.2	P302.6	P333.9

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*):

	2020			2019		
	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	P1,542	P-	P1,542	P3,323	P-	P3,323
Trade receivables	16,794	-	16,794	14,950	-	14,950
Other receivables	3,421	-	3,421	3,401	-	3,401
Due from related parties	1,955	-	1,955	2,029	-	2,029
Refundable deposits	181	-	181	178	-	178
Financial assets at FVTPL	33	-	33	7	-	7
	P23,926	P-	P23,926	P23,888	P-	P23,888
Short term debts	P4,740	P-	P4,740	P3,323	P-	P3,323
Accounts payable and other liabilities*	9,893	-	9,893	14,940	-	14,940
Long-term debts	565	3,755	4,320	443	3,705	4,148
Due to related parties	65	-	65	65	-	65
Other liabilities	1,561	1,676	3,237	2,456	1,519	3,975
	P16,825	P5,431	P22,256	P21,227	P5,224	P26,451

* Excluding non-financial liabilities amounting to P223.2 million and P134.3 million as of December 31, 2020 and 2019, 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 2020, 2019 and 2018, changes in fair value of equity instruments held as equity instruments at FVTOCI due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by P209.7 million, P310.4 million and P327.4 million, respectively, if equity prices will increase by 14.8%, 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, 2020 and 2019, 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, 2020						
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	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]
			[a-b]	Financial instruments	Fair value of Financial collateral	
	[a]	[b]	[c]	[d]		[e]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	P58,317,718	(P57,947,065)	P370,653	(P58,699)	P-	P311,954
Securities sold under agreements to repurchase (Note 8)	15,819,273	-	15,819,273	-	(16,499,434)	-
	P74,136,991	(P57,947,065)	P16,189,926	(P58,699)	(P16,499,434)	P311,954

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]
			(In Thousands)			
Derivative assets (Notes 6 and 21)	P74,965,186	(P74,592,146)	P373,040	(P45,891)	P–	P327,149
Securities sold under agreements to repurchase (Note 8)	2,517,764	–	2,517,764	–	(2,517,745)	19
	P77,482,950	(P74,592,146)	P2,890,804	(P45,891)	(P2,517,745)	P327,168

Financial liabilities

December 31, 2020						
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	
				[d]	[e]	
<i>(In Thousands)</i>						
Derivative liabilities (Notes 16 and 21)	P65,641,080	(P64,939,841)	P701,239	(P85,540)	P–	P615,699
Securities sold under agreements to repurchase (Note 8)*	69,906,979	–	69,906,979	–	(72,585,497)	–
Total	P135,548,059	(P64,939,841)	P70,608,218	(P85,540)	(P72,585,497)	P615,699

* Included in bills and acceptances payable in the consolidated statement of financial position.

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)	P60,131,350	(P59,885,731)	P245,619	(P155,245)	P–	P90,374
Securities sold under agreements to repurchase (Note 17)*	23,268,257	–	23,268,257	–	(29,655,404)	–
Total	P83,399,607	(P59,885,731)	P23,513,876	(P155,245)	(P29,655,404)	P90,374

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

	December 31, 2020		December, 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets:				
Financial assets at amortized cost	P95,235,993	P99,368,418	P100,464,757	P101,580,817
Loans and receivables:				
Receivables from customers	585,855,937	622,821,007	636,950,500	695,304,130
	P681,091,930	P722,189,425	P737,415,257	P796,884,947
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P236,694,042	P236,694,042	P226,894,643	P226,525,853
Bills payables	83,598,532	83,600,018	53,270,956	56,049,095
Long-term debts:				
Subordinated debt	28,212,034	28,541,261	3,497,797	3,551,484
Unsecured term loan	2,911,053	2,911,053	2,334,259	2,051,108
Bonds payable	64,056,335	67,728,954	66,615,078	69,640,930
LTNCD	28,212,034	28,541,261	35,152,104	35,311,473
Other liabilities:				
Payable to landowners	1,061,191	1,061,191	1,828,949	1,828,949
Tenants' rental deposits	428,191	428,191	560,992	560,992
	P445,173,412	P449,505,971	P390,154,778	P395,519,884

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

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

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

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

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

Liabilities - Except for time deposit liabilities, subordinated debt, bonds payable, unsecured term loans, notes payable, payable to landowners, tenants' rental deposits and advance rentals, the carrying values approximate

fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

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

Time deposit liabilities, bills payable with long term maturity and subordinated debt including designated at FVTPL - Fair value is determined using the discounted cash flow methodology.

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, 2020			
	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	P17,657,777	P478,614	P-	P18,136,391
Derivative assets	-	370,653	-	370,653
Private debt securities	3,198,949	1,097,151	-	4,296,100
Equity securities	1,019,626	-	-	1,019,626
Designated at FVTPL:				
Investment in UITFs	-	35,554	-	35,554
	P21,876,352	P1,981,972	P-	P23,858,324
Financial assets at FVTOCI:				
Government securities	P67,513,412	P43,333,354	P-	P110,846,766
Private debt securities	9,773,253	11,645,281	-	21,418,534
Equity securities**	302,340	540,109	607,603	1,450,052
	P77,589,005	P55,518,744	P607,603	P133,715,352
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P-	P-	P38,269,468	P38,269,468
Plant buildings and building improvements	-	-	13,408,573	13,408,573
Machineries and equipment	-	-	8,240,432	8,240,432
	P-	P-	P59,918,473	P59,918,473
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P-	P701,239	P-	P701,239
	P-	P701,239	P-	P701,239
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	P12,712,144	P86,656,274	P-	P99,368,418
Loans and receivables:				
Receivables from customers	-	-	622,821,007	622,821,007
	P12,712,144	P86,656,274	P622,821,007	P722,189,425
Non-financial Assets				
Investment properties***				
Land	P-	P-	P26,970,597	P26,970,597
Buildings and improvements	-	-	3,947,077	3,947,077
	P-	P-	P30,917,674	P30,917,674
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P-	P-	P236,694,042	P236,694,042
Long term debts:				
Bills payable	-	-	83,600,018	83,600,018
Unsecured term loan	-	-	2,911,053	2,911,053
Bonds payable	38,225,468	29,503,486	-	67,728,954
LTNCD	-	28,541,261	-	28,541,261
Other liabilities:				
Payable to landowners	-	-	1,061,191	1,061,191
Tenants' rental deposits	-	-	428,191	428,191
	P38,225,468	P58,044,747	P324,694,495	P420,964,710

* 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, 2019 (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	P4,258,245	P4,245,577	P–	P8,503,822
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
	P7,961,568	P5,507,812	P–	P13,469,380
AFS investments:				
Government securities	P66,204,545	P24,845,170	P–	P91,049,715
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
	P75,763,481	P44,131,569	P3,245,790	P123,140,840
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P–	P–	P38,519,042	P38,519,042
Plant buildings and building improvements	–	–	13,951,514	13,951,514
Machineries and equipment	–	–	7,341,355	7,341,355
	P–	P–	P59,811,911	P59,811,911
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P–	P245,619	P–	P245,619
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	P30,455,373	P70,924,643	P200,801	P101,580,817
Loans and receivables:				
Receivables from customers	–	–	695,304,130	695,304,130
	P30,455,373	P70,924,643	P695,504,931	P796,884,947
Non-financial Assets				
Investment properties***				
Land	P–	P–	P23,894,410	P23,894,410
Buildings and improvements	–	–	4,844,980	4,844,980
	P–	P–	P28,739,390	P28,739,390
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P–	P–	P226,525,853	P226,525,853
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
	P39,517,123	P65,435,280	P287,015,997	P391,968,400

* 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.

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, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	P6,000 - P6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	P4,287 - P10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	P2.8 million - P26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	P3,200 - P8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	P800 - P100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

	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

Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2020 and 2019 follow:

	2020			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	P55,963,290	P32,255,780	(P1,059,619)	P87,159,451
Bonds payable	66,615,078	–	(2,558,743)	64,056,335
Lease liabilities	3,247,876	(794,735)	322,115	2,775,256
	P125,826,244	P31,461,045	(P3,296,247)	P153,991,042

	2019			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	P70,082,835	(P11,348,364)	(P2,771,181)	P55,963,290
Bonds payable	15,661,372	51,899,720	(946,014)	66,615,078
Lease liabilities	3,336,896	(775,341)	686,321	3,247,876
	P89,081,103	P39,776,015	(P3,030,874)	125,826,244

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 2020 and 2019 amounted to P122.4 million and P461.9 million. The Group recognized additional lease liabilities in 2020 and 2019 amounting to P104.3 million and P456.6 million, respectively.

The Group applied creditable withholding taxes against its income tax payable amounting to P2.8 billion, P1.3 billion and P2.6 billion in 2020, 2019 and 2018, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to P0.1 billion, P1.0 billion, and P0.8 billion in 2020, 2019 and 2018, respectively.

Non-cash Investing Activities

As of December 31, 2020 and 2019, unpaid additions to property, plant and equipment amounted to P154.3 million and P180.4 million, respectively, which is included as part of “Accounts payable and accrued expenses”.

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 2020 and 2019.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No change were made in the objectives, policies or processes in 2020 and 2019.

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:

	2020	2019
	<i>(In Thousands, except ratios)</i>	
Total liabilities	P1,097,584,175	P1,011,822,982
Total equity	255,538,279	254,007,571
Total liabilities and equity	P1,353,122,454	P1,265,830,553
Debt ratio	0.81:1	0.80:1
Debt-to-equity ratio	4.30:1	3.98:1

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 December 11 and October 9, 2020, the respective BODs of PNB and PNB Holdings approved the sale of all their respective shareholdings in PNB Gen to Alliedbankers Insurance Corporation (ABIC), an affiliate, for a total purchase price of P1.5 billion (the Purchase Price), subject to regulatory and other necessary approvals.

Under the Sale and Purchase Agreement (SPA), the Purchase Price shall be payable as follows:

- PNB Holdings Purchase Price (P521.8 million) – payable in full on PNB Holdings Closing Date (i.e., the completion of the purchase of PNB Holdings Shares by ABIC, which shall be December 28, 2020, or such other date subsequently agreed upon by the parties)
- PNB Purchase Price (P1.0 billion) – payable in three tranches (10%, 45% and 45%) on January 21, March 21, and June 21, 2021, respectively

The SPA also provides for a grant of an exclusive bancassurance arrangement for the non-life insurance business of the Group to ABIC with a minimum guaranteed term of 15 years. As an additional consideration, ABIC shall pay the Group (P50.0 million on PNB Closing Date (i.e., the completion of the purchase of PNB Shares by ABIC to coincide with the payment of PNB Tranche 3 or such final installment of the PNB Purchase Price), subject to regulatory approvals.

On December 29, 2020, the Insurance Commission approved the above acquisition of ABIC. Accordingly, PNB Holdings closed and completed the sale of its 34.25% shareholdings in PNB Gen, recognizing gain on sale of P344.7 million, which is included under 'Equity in net earnings of subsidiaries' in PNB's financial statements, but treated as an equity transaction in the consolidated financial statements as 'Other equity reserves'. The Group also reclassified the assets and liabilities of PNB Gen to 'Assets and liabilities of disposal group classified as held for sale' in the consolidated statement of financial position as of December 31, 2020.

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 2020, the comparative consolidated statements of incomes and comprehensive income and cash flows in 2019 and 2018 have been re-presented to show the discontinued operations separately from the continuing operations. See table in the next page.

	2020	2019	2018
Interest Income on			
Loans and receivables	P202	P275	P355
Investment securities at amortized cost and FVTOCI	81,734	67,708	60,477
Deposits with banks and others	5,087	17,453	1,994
	87,023	85,436	62,826
Interest Expense on			
Lease liabilities (Note 38)	2,698	128	—
Net Interest Income	84,325	85,308	62,826
Net Service Fees and Commission Income	19,718	7,460	7,590
Net insurance premium	955,640	1,151,705	1,228,794
Net insurance benefits and claims	716,820	909,975	1,292,949
Net Insurance Premium (Benefits and Claims)	238,820	241,730	(64,155)
Other Income			
Trading and investment securities gains (losses) - net (Note 24)	9,123	94	(4,176)
Foreign exchange gains (losses) - net	(2,878)	15	15,921
Total Operating Income	349,108	334,607	18,006
General and Administrative Expenses			
Compensation and fringe benefits	152,265	133,896	130,241
Provision for (reversal of) credit losses	29,781	(324)	12,635
Depreciation and amortization	28,862	8,901	6,169
Taxes and licenses	4,750	4,878	931
Occupancy and equipment-related costs	1,910	17,074	18,695
Others	43,539	49,910	45,946
Total Operating Expenses	261,107	214,335	214,617
Income Before Income Tax	88,001	120,272	(196,611)
Provision for (Benefit from) Income Tax (Note 29)			
Current	21,186	18,897	14,298
Deferred	(768)	(218)	9,063
	20,418	18,679	23,361
Net Income (Loss) from Discontinued Operations	P67,583	P101,593	(P219,972)

Net Insurance Premium (Benefits and Claims)

This account consists of:

	2020	2019	2018
Net insurance premiums			
Gross earned premium	P2,385,857	P2,764,108	P2,501,725
Reinsurer's share of gross earned premiums	(1,430,217)	(1,612,404)	(1,272,931)
	955,640	1,151,704	1,228,794
Less net insurance benefits and claims			
Gross insurance contract benefits and claims paid	2,241,488	1,598,129	1,711,759
Reinsurer's share of gross insurance contract benefits and claims paid	(1,983,736)	(1,262,884)	(606,275)
Gross change in insurance contract liabilities	1,410,172	(65,571)	109,703
Reinsurer's share of change in insurance contract liabilities	(951,104)	640,300	77,762
	716,820	909,974	1,292,949
	P238,820	P241,730	(P64,155)

The major classes of assets and liabilities of PNB Gen classified as disposal group as follows as of December 31, 2020 follow:

Assets	
Due from other banks	P164,894
Financial assets at FVTPL	1,387
Financial assets at FVTOCI	1,183,355
Investment securities at amortized cost	788,430
Loans and other receivables - net	4,232,047
Deferred reinsurance premium	901,623
Property and equipment - net	48,436
Deferred tax assets	36,475
Intangible assets - net	5,134
Other assets	584,164
	<u>P7,945,945</u>
Liabilities	
Accrued taxes, interest and other expenses	P269,100
Insurance contract liabilities	4,360,733
Reserved for unearned reinsurance premium	1,196,273
Accounts payable	142,513
Other liabilities	385,345
	<u>P6,353,964</u>
Net assets of disposal group held for sale	<u>P1,591,981</u>
Amounts included in accumulated OCI:	
Remeasurement gain on retirement plan	P59,407
Net unrealized gain on financial assets at FVTOCI	29,209
	<u>P88,616</u>

Net cash flows of the discontinued operations follow:

	2020	2019	2018
Net cash flows used in operating activities	(P177,913)	(P298,984)	(P4,227)
Net cash flows used in investing activities	(399,511)	(8,619)	(51,552)
Net cash flows from financing activities	-	292,789	266,000
	(P577,424)	(P14,814)	P210,221

38. Leases, Provision and Contingencies and Other Matters

Leases

The Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less non-cancellable 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.

In May and November 2020, Eton granted discounts to its lessees totaling to P107.2 million.

Future minimum rental receivables under non-cancellable operating leases as of December 31 are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Within one year	P1,437,821	P1,617,061
After one year but not more than five years	2,981,337	2,829,157
More than five years	208,351	548,242
	P4,627,509	P4,994,460

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-cancellable 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 PNB’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 consolidated statements of income) amounted to P581.1 million, P581.1 million and P844.6 million in 2020, 2019 and 2018, respectively, for the Group, of which P454.1 million, P454.1 million and P808.3 million in 2020, 2019, and 2018, respectively, pertain to the PNB. Rent expense in 2020 and 2019 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2020 and 2019, the Group has no contingent rent payable.

As of December 31, 2020, the carrying amounts of ‘Lease liabilities’ are as follows:

Balance at beginning of year	P3,247,876
Additions	104,330
Interest expense (Note 19)	219,027
Payments	(794,735)
Effects of discontinued operations (Note 37)	(1,242)
	<u>P2,775,256</u>

Future minimum lease receivables under finance leases are as follows:

	2020	2019
	<i>(In Thousands)</i>	
Within one year	P1,364,058	P1,260,542
Beyond one year but not more than five years	906,513	1,164,893
More than five years	31,845	-
Total	2,302,416	2,425,435
Less amounts representing finance charges	13,770	13,770
Present value of minimum lease payments	P2,288,646	P2,411,665

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 P95.9 billion and P95.9 billion as of December 31, 2020 and 2019, respectively. In connection with the trust functions of PNB, government securities amounting to P1.0 billion and P1.0 billion (included under ‘Financial assets at amortized cost’) as of December 31, 2020 and 2019, 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 P21.4 million, P21.4 million and P23.0 million in 2020, 2019 and 2018, 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 P725.8 million. Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of P45.9 million 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 (CTA) 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. On July 28, 2019, the motion was denied by the CTA Second Division. TDI filed a Petition for Review to the CTA En Banc on August 1, 2019. On October 28, 2020, the petition was denied, affirming the decisions and resolutions made by CTA Second Division. A pending Motion for Reconsideration was filed by the legal counsel before the CTA En Banc. As of March 15, 2021, TDI is awaiting for the CTA En Banc’s resolution.

Other Matter

Effluent Supply Agreement

On September 26, 2013, TDI and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein TDI 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 TDI 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 TDI for the termination of the Effluent Supply Agreement effective January 16, 2018.



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Chairman & Chief Executive Officer



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