

COVER SHEET

SEC Registration Number

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COMPANY NAME

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

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Form Type

1	7	-	A
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Department requiring the report

S	E	C	
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Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

info@ltg.com.ph

Company's Telephone Number

808-1266

Mobile Number

N/A

No. of Stockholders

370

Annual Meeting (Month / Day)

May 7

Fiscal Year (Month / Day)

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Jose Gabriel D. Olives

Email Address

josegabriel.olives@ltg.com.ph

Telephone Number/s

	N/A
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Mobile Number

N/A

CONTACT PERSON'S ADDRESS

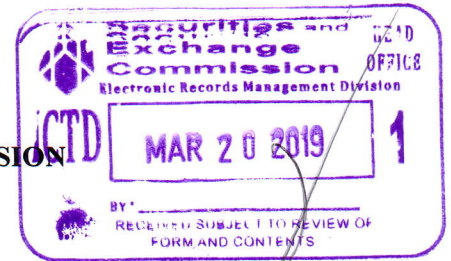
**11th Floor, Unit 3 Bench Tower, 30th St. Corner Rizal Drive Crescent Park West 5 Bonifacio
Global City, Taguig City**

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

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A



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

1. For the calendar year ended **December 31, 2018**
2. SEC Identification Number **PW-343**
3. BIR Tax Identification No. **121-145-650-000**
4. Exact name of registrant as specified in its charter **LT Group, Inc.**
5. **Philippines**
Province, Country or other jurisdiction of
incorporation or organization
6.  (SEC Use Only)
Industry Classification Code:
7. **11th Floor Unit 3 Bench Tower, 30th St. corner Rizal drive Crescent Park West 5 Bonifacio**
Global City Taguig City
Address of principal office
- 1634**
Postal Code
8. **(632) 808-1266**
Registrant's telephone number, including area code
9. **N/A**
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or 4 and 8 of the RSA

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

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

Yes ☒ No ☐

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

12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);
- Yes ☒ No ☐
- (b) has been subject to such filing requirements for the past 90 days.
- Yes ☒ No ☐
13. Aggregate market value of the voting stock held by non-affiliates of the registrant
₱46,065,869,774 as of December 31, 2018.
14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the commission.
- Yes ☐ No ☒

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:
- (a) Any annual report to security holders; **Not applicable**
- (b) Any information statement filed pursuant to SRC Rule 20; **Not applicable**
- (c) Any prospectus filed pursuant to SRC Rule 8.1. **Not applicable**

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

Corporate History

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

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

As of December 31, 2018 and 2017, LTG was 74.36%-owned by its ultimate parent company, Tangent, which was also incorporated in the Philippines.

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

The Company has interests in the following businesses:

- **Distilled Spirits**—the Company conducts its distilled spirits business through its 100%-owned subsidiary TDI. TDI is the third-largest distilled spirits producer in the Philippines according to Nielsen Philippines, with an approximate 27% share of the Philippine spirits market in 2018.
- **Beverages**— the Company conducts its beverage business through its 99.9%-owned subsidiary, Asia Brewery, Incorporated (ABI). ABI is one of the Philippines’ leading beverage manufacturers, producing energy drinks, bottled water, and soymilk. The company conducts its alcoholic beverage business through ABI’s 50% stake in AB Heineken Philippines Inc. (ABHP).
- **Tobacco**—the Company conducts its tobacco business through its 99.6% ownership in Fortune Tobacco Corporation (FTC), which in turn owns 49.6% of PMFTC. PMFTC is the leading tobacco manufacturer and distributor in the Philippines with an estimated 69.9% market share in the year 2018.

- **Banking**—the Company conducts its banking business through Philippine National Bank (PNB). PNB is a universal bank currently listed in the Philippine Stock Exchange (PSE). The Company’s indirect ownership in PNB is approximately 56.47%. PNB is the Philippines’ fourth largest private commercial bank in terms of total assets in 2018.
- **Property Development**— the Company conducts its property development business through Paramount Landequities, Inc. and Saturn Holdings, Inc., with an effective indirect ownership of 99.6% in Eton Properties Philippines, Inc. (Eton). Eton has a diverse portfolio of property development projects in various areas throughout the Philippines, primarily in Metro Manila and surrounding areas, and access to the large land bank of the Lucio Tan Companies. Eton’s project portfolio mainly comprises residential real estate projects (including large-scale township projects). Eton also develops and leases out commercial properties to retail and BPO tenants.

Description of Subsidiaries

Distilled Spirits

Tanduay Distillers, Inc. (TDI)

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

The following companies are majority owned by TDI:

- **Asian Alcohol Corporation (AAC) – 95%**
AAC is a domestic corporation registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 1973. The company is primarily involved in the manufacture of refined and/or denatured alcohol and in the production of fodder yeast, and to market, sell, distribute, and generally deal in any or all of such liquids or products.
- **Absolut Distillers, Inc. (ADI) – 96%**
ADI was incorporated in the Philippines on September 14, 1990, to engage in, operate, conduct and maintain the business of manufacturing, distilling, importing, exporting, buying, selling or otherwise deal in chemicals including but not limited to alcohol, molasses, bioethanol, biogas and biomass for renewable energy at wholesale and retail and to engage in the business of generating, transmitting and or distributing renewable energy derived from solar power for lighting and power purposes.
- **Tanduay Brands International, Inc. (TBI) – 100%**
On May 6, 2003, TBI was incorporated in the Philippines to handle the marketing of TDI’s products. On December 20, 2016, LTG sold its 100% ownership interest in TBI to TDI. In October 2017, the Company started its commercial operations and opened its first store “Tanduay” in Century Park Hotel in Manila.

Beverage

Asia Brewery, Incorporated (ABI)

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

The following companies are 100%-owned by ABI:

- **Agua Vida Systems, Inc. (AVSI)**
AVSI was incorporated in the Philippines on August 15, 1994. Its primary business is the distribution and refilling of purified water and water dispensers for use primarily in homes and offices.
- **Waterich Resources Corp. (WRC)**
WRC was incorporated in the Philippines on September 25, 1997. Its primary business is the toll manufacturing for ABI of *Absolute Pure Distilled Drinking Water* and *Summit Water*.
- **Packageworld, Inc. (PWI)**
PWI was incorporated in the Philippines on January 15, 1998. Its primary business is the manufacturing of corrugated cartons and trade the same on a wholesale basis.
- **Interbev Philippines, Inc. (IPI)**
IPI was incorporated in the Philippines on April 28, 2003. Its primary business is the production and distribution of *Cobra* and *energy drinks*.
- **AB Nutribev Corp. (ABNC)**
ABNC was incorporated in the Philippines on April 22, 2014. Its primary business is the manufacturing and trading of dairy and soy milk-based beverages.
- **Asia Pacific Beverages Pte. Ltd. (APBPL)**
APBPL was incorporated on August 21, 2014 under the laws of Singapore. It was established as an investment holding company for business opportunities in the region. APBPL acquired 90% of Asia Pacific Beverages Myanmar Co. Ltd. (APBM) in April 2017. APBM is a company incorporated in the Republic of the Union of Myanmar. APBM's primary purpose is to manufacture, market, sell and distribute non-alcoholic ready-to-drink beverage products in Myanmar.

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

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

Tobacco

Fortune Tobacco Corporation (FTC)

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

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

Banking

Philippine National Bank (PNB)

PNB was incorporated in the Philippines on July 22, 1916. PNB is the country's first universal bank and the fourth largest private local commercial bank in terms of assets as of December 31, 2018. PNB has celebrated its Centennial Year of serving the Filipino people in July 2016. For 100 years, PNB stands proud as an institution of stability and security for many Filipinos. With its century of banking history and experience, PNB is poised to move forward to becoming a more dynamic, innovative and service-focused bank, providing service excellence to Filipinos all over the world. PNB provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle market, SME and retail customers, with PNB having the distinction of being one of the only five authorized Government depository banks in the Philippines. The current PNB is a result of the merger between PNB and Allied Banking Corp., which was completed on February 9, 2013.

The following companies are owned by PNB:

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

* Subsidiaries acquired as a result of the merger with ABC

^(a) Owned through PNB IIC

^(b) Owned through PNB RCI

^(c) Owned through PNB RCI Holding Co. Ltd.

Bank Holding Companies

On February 11, 2013, LTG's Board of Directors (BOD) approved the acquisition of indirect ownership in the merged PNB through the investment in the 27 holding companies which have collective ownership interest in PNB of 59.83% (collectively referred to as "Bank Holding Companies"). LTG's acquisition was effected by way of subscription to the increase in authorized capital shares of 22 Bank Holding Companies direct buy-out of shares of 5 Bank Holding Companies. As of December 31, 2018, LTG has majority ownership over the Bank Holding Companies which translates to an indirect 56.47% ownership of PNB.

The following are the 27 bank holding companies:

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

Property Development

Saturn Holdings, Inc. (Saturn)

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

Paramount Landequities, Inc. (Paramount)

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

Eton Properties Philippines, Inc. (ETON)

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

The following companies are 100%-owned by ETON:

- **Belton Communities, Inc. (BCI)**
BCI was incorporated and registered with the SEC on November 5, 2007 and is engaged to deal and engage in land or real estate business.
- **Eton City, Inc. (ECI)**
ECI was incorporated and registered with the SEC on October 8, 2008 and is engaged to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.
- **FirstHomes, Inc. (FHI)**
On October 15, 2010, FHI was incorporated and registered with Philippine SEC as a wholly-owned subsidiary of Eton and is engaged in real estate development.
- **Eton Properties Management Corporation (EPMC)**
EPMC was incorporated and registered with the SEC on November 25, 2011 to manage, operate, lease, in whole or in part, real estate of all kinds, including buildings, houses, apartments and other structures of the Corporation or of other persons provided that they shall not engage as property manager of a real estate investment trust. EPMC has started its commercial operations in 2016.

Products

Distilled Spirits

Rum Products

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

Gin Products

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

Brandy Products

1. Compañero Light Brandy

Vodka Products

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

Whiskey Products

1. Embassy Whiskey

Cocktails

1. Tanduay Cocktails

Medicinal Wine

1. Vino Agila

Bioethanol

The Company's distillery subsidiaries, ADI and AAC, are registered with the Sugar Regulatory Administration (SRA) as bioethanol producers with a registered capacity per year of 30 million liters each. Under RA 9367 of 2006, otherwise known as the Biofuels Law, all liquid fuels for motors and engines sold in the Philippines shall contain locally-sourced biofuels components. Effective 2010, or four years from effectivity of the law, the mandated blend of bioethanol by volume into all gasoline fuel distributed and sold by local oil companies is 10%. In the event of supply shortage of locally-produced bioethanol, oil companies shall be allowed to import bioethanol but only to the extent of the shortage as maybe determined by the National Biofuels Board (NBB).

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

Solar Power

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

Other Products

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

Beverage**Energy Drinks**

1. Cobra

Drinking Water

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

Others

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

Commercial Glass

APFI product include:

1. Creamy Delight Yogurt

APBM products sold in Myanmar include:

1. Sunkist carbonated soft drinks
2. Sunkist juice drink

3. Air Soda
4. Cobra energy drink
5. Barista's Best ready-to-drink Coffee

ABHP products sold in the Philippine market include:

Beer

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

Alcopop

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

Tobacco

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

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

Banking

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

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

Property Development

Completed Developments:

High-rise

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

Mid-rise

1. The Manors at North Belton Communities

Residential Subdivisions

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

Commercial

1. Centris Walk
2. Centris Walk Extension
3. Centris Steel Parking Buildings
4. Centris Station
5. Green Podium

BPO Office

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

Events Venue

1. Elements at Centris

Serviced Residences

1. Mini Suites at Eton Tower Makati

Ongoing Developments:

Residential Subdivisions

1. West Wing Residences at Eton City
2. West Wing Villas

Commercial

1. WestEnd Square
2. NXTower I
3. Eton Square Ortigas
4. Eton City Square

BPO Office

1. Cyberpod Centris Five

Distribution method of the products

Distilled Spirits

Liquor Products

As of December 31, 2018, TDI serves more than 215,000 points of sale throughout the Philippines through ten (10) exclusive distributors, who in turn may work with a large number of sub-distributors. TDI has generally maintained good business relationships with its distributors since 1988. TDI's distributors operated 48 sales offices and 84 warehouses located throughout the Philippines. TDI through TBI employs in-house sales staffs who provide marketing and general administrative support to TDI's distributors. TDI's products are transported from the production facilities to distributors' warehouses by third party transportation companies for the account of the distributors.

Bioethanol and distillery by-products

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

Beverage

ABI markets, sells and distributes its products throughout the Philippines through 13 exclusive major distributors. ABI's exclusive distributors have a network of 46 sales offices, 22 warehouses and 35 depots. This extensive network assures product availability to ABI consumers and also provides ABI expeditious nationwide placement of new products. ABI's products are transported to distributors' warehouses by third party transportation companies, with the costs for the account of such distributors.

Tobacco

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

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

Banking

PNB, through its Head Office and 711 domestic branches/offices and 72 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and GOCCs in the Philippines. PNB's principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

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

Institutional Banking Sector

The Bank's Institutional Banking Sector (IBS) is responsible for credit relationships with large corporate, middle-market and SME customers as well as with GOCC and financial institutions.

Retail Banking Sector

The Retail Banking Group (RBS) principally focuses on retail deposit products (i.e., current accounts, savings accounts and High Cost accounts) and services. While the focal point is the generation of low cost funding for the Bank's operations, the RBS also concentrates on the cross-selling of consumer finance products, trust products, fixed income products, credit cards and bancassurance products to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organization.

Consumer Finance

The Bank's consumer financing business is seen to be a major contributor to its revenue stream in the medium term. PNB Savings Bank (PNBSB) serves as the consumer arm of PNB. Strategic initiatives have been undertaken to put in place the proper infrastructure to support PNBSB's business growth. To further propel consumer loans growth, a number of marketing campaigns, aimed at generating business and increasing product awareness, were initiated.

Treasury Sector

The Treasury Sector primarily manages the liquidity and regulatory reserves of the Bank and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading. This includes an oversight on risk positions of its foreign branches and subsidiaries.

Global Filipino Banking Group

The Global Filipino Banking Group covers the Bank's overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. It also provides consumer financing through the *Pangarap* Loan and Own a Philippine Home Loan which are available to OFWs.

Trust Banking Group

The Bank, through its Trust Banking arm provides a full range of Trust, Agency, and Fiduciary products and services designed to serve a broad spectrum of market segments. Its personal trust products and services include personal management trust, investment management, estate planning, guardianship, and life insurance trust. Corporate trust services and products include corporate trusteeship, securitization, portfolio management, administration of employee benefit plans, pension and retirement plans, and trust indenture services. Trust agency services include such roles as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

Property Development

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

Status of any publicly-announced new product or services

Distilled spirits

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

Beverage

In July 2018, Vitamilk expanded its product line with the introduction of Vitamilk Banana, a soymilk drink flavored by real banana puree.

Banking

The Bank has launched the following products and services in 2018:

- PNB Savings Bank Smart Courier
- MasterCard NOW
- PNB Credit Card now in the PNB Mobile Banking App
- PNB Own a Philippine Home Loan (OPHL)
- PNB Institutional Money Market Fund
- PNB Fixed Income Fund
- PNB UITF portfolio now in the PNB Mobile Banking App
- PNB one of the first local banks to offer PESONet
- PNB-PAL Mabuhay Miles Debit Mastercard

- InstaPay is now available in the PNB Mobile Banking App
- PNB participates in the peso-renminbi exchange system
- PNB Konekt

Tobacco

In 2018, the following were the product innovations and upgrades:

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

Competitive business condition/position in the industry

Distilled Spirits

Liquor Products

The Philippine liquor market declined by 5% in 2018 based on the retail audit of Nielsen with Visayas as the only region with a +5% growth. With its strong performance in the Vismin region, TDI gained 1.8ppts to end the year with 27% national market share. TDI posted a strong performance in Visayas (+10% in volume). In Mindanao, TDI had a decline in volume of sales of -2% but posted a growth in market share at +3.8 ppts due to faster decline in volume of sales of Competitors.

Bio-Ethanol Fuel

There are presently fifteen registered local bioethanol producers in the country with a total registered capacity of 455 million liters (ML) per year. In 2018, only 12 bioethanol producers with a combined capacity of 365 ML were operational as against the country's total ethanol requirement of around 550ML. Due to the shortage in local bioethanol supply, oil companies were being allowed to import bio-ethanol to cover the deficiency. The intent of the law however is that all locally produced ethanol must be consumed first before any importation is allowed. Presently, the Department of Energy controls the importation of ethanol through the Notice of Value of Bioethanol Importation Allowed (NAVBI).

Beverage

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

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

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

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

Tobacco

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

Banking

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A. 10641 in 2014, as well as, the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there were 44 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 24 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products; have larger lending limits; and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Lucio Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bank's other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bank's stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks. As of December 31, 2018, the Bank has a distribution network of 711 branches and offices and 1,393 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

Property Development

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

Raw Materials and Principal Suppliers

Distilled Spirits

- **Alcohol**

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

Alcohol is delivered directly to the plant by tankers. The quality of alcohol is checked prior to acceptance. In 2018, alcohol accounted for 30% of product cost while excise tax accounted for 36% of the total costs. The tax is paid upon withdrawal of the full goods from the production sites. With the temporary shutdown of AAC's operations, TDI increased its importation of alcohol from Pakistan & Indonesia.

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

- **Sugar**
This is added when deemed necessary to enhance the taste and aroma of a particular product.
- **Water**
The plants use significant amounts of demineralized water for blending liquor products. The water is supplied by the local utility. Each plant has its own water storage and demineralization facilities.
- **Flavoring Agents**
For some products, essences and other flavoring agents are added to attain the desired color, flavor and aroma as well as to reinforce the natural quality of rum as derived from molasses and ageing in oak barrels.
- **Bottles**
TDI's liquor products are packaged in glass bottles. Glass bottles account for approximately 20% of cost of goods sold for TDI's products. The cost is managed in part by recycling the bottles. TDI maintains a network of secondhand bottle dealers across the nation that retrieve the bottles from the market and sell them back to TDI. The cost of the secondhand bottles including the cost of cleaning is 50% lower than the cost of purchasing new bottles.
- **Caps**
All products are sealed with tamper-proof resealable aluminum caps, which average at 2% of total product cost.
- **Labels**
The labels being used are made from imported base coated paper. Label cost accounts for 1% of product cost.

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

Beverage

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

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

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

Tobacco

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

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

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

Banking

This is not applicable for banks.

Property Development

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

Dependence on one or two major customers

Distilled Spirits

Liquor Products

TDI markets, sells, and distributes its products throughout the Philippines. In the year ended December 31, 2018, sales volume in the Visayas and Mindanao regions accounted for approximately 47% and 52% of TDI's gross sales volume, respectively. TDI attributes its leading position in the distilled spirits products to strong brand equity, utilization of diverse marketing channels and an established sales and distribution network.

AAC and ADI sell majority of its alcohol to TDI. Although TDI buys most of its alcohol from AAC and ADI, it has a network of secondary suppliers locally and abroad.

Bioethanol

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

Beverage

ABI has stable relationships with its 13 exclusive major distributors and its financial well being is not dependent on only one or two major customers.

Tobacco

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

Banking

PNB offers a wide range of financial services in the Philippines. The Bank has foreign operations and has a stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia thus, its financial well being is not dependent on only one or two major customers.

Property Development

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

Transactions with and/or dependence on related parties

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

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

Distilled Spirits

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

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

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

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

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

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

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

Beverage

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

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

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

Tobacco

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

Banking

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

Property Development

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

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

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

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

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

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

Need for any government approval of principal products

Distilled Spirits & Beverages

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

Tobacco

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

Banking

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

Property Development

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

Effect of existing or probable governmental regulations on the business

Distilled Spirits

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

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

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

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

Beverage

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

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

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

Tobacco

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

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

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

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

Banking

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

Property Development

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

Research and development activities

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

Costs and effects of compliance with environmental laws

Distilled Spirits

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

Environmental Management Facilities

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

Bottle Recycling

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

Waste Water Treatment Plants

Bottling Plants

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

Distillation Plants

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

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

Beverage

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

Tobacco

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

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

Banking

This is not applicable to banks.

Property Development

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

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

Human Resources and Labor Matters

LTG had 14 administrative and 5 regular monthly employees as of December 31, 2018. The total workforce of the Group inclusive of contractual employees was as follows:

Distilled Spirits	1,137
Beverage	4,271
Tobacco	48
Banking	8,266
Property development	<u>396</u>
Total	14,118

Distilled Spirits

TDI has 1,137 employees as of December 31, 2018. With the exception of the Cagayan De Oro Plant, all regular daily employees of the TDI plants are unionized. TDI-Cabuyao's regular daily employees has a Collective Bargaining Agreement (CBA) with the NAGKAKAISANG LAKAS MANGGAGAWA NG TDI-FSM, which is effective up to 2022. TDI Negros' regular daily employees assigned in its bottling operations has a CBA with the Labor Union of Tanduay Employees (LUTE) effective up to 2022.

AAC has 183 employees with no existing Union.

As of December 31, 2018, ADI has 298 employees. ADI's registered labor union is Absolut Distillers, Inc. Employees Union-Olalia-KMU. Current CBA is effective up to 2020.

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

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

Beverage

As of December 31, 2018, approximately out of the 4,271 (including contractual employees) ABI and its subsidiaries directly employed 2,719 people, of which about 77% were employed in manufacturing and logistics, 21% had general and administrative functions, 1% were in sales and distribution, and 1% were in marketing.

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

ABI is party to a collective bargaining agreement (CBA) for its employees at its Cabuyao plant. The CBA was signed on July 14, 2016, and is effective until December 31, 2018. The next collective bargaining discussions will commence on February 21, 2019.

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

Tobacco

FTC had 48 regular monthly employees as of December 31, 2018. Effective January 1, 2012, FTC ceased to have daily (regular or casual) employees because of the business combination of FTC and PMPMI effective on February 25, 2010. The operations of FTC and the manufacturing of cigarettes were all transferred to PMFTC, the new company.

Banking

The total employees of the Bank as of December 31, 2018 is 8,266 wherein 4,011 were classified as Bank officers and 4,255 as rank and file employees.

The Bank shall continue to pursue selective and purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency. Foremost among these initiatives are the upgrade of its Systematics core banking system and the new branch banking system which are expected to bring about a gradual reduction in the number of employees in the support group upon full implementation.

With regard to the Collective Bargaining Agreement (CBA), the Bank's regular rank and file employees are represented by two (2) existing unions under the merged bank, namely: Allied Employee Union (ABEU) and Philnabank Employees Association (PEMA).

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial.

Property Development

The Company had 396 and 400 employees at the close of the calendar year December 31, 2018 and 2017, respectively. The breakdown of the Company employees as of December 31, 2018, according to type are as follows:

Executive	24
Managers	92
Officers	59
Supervisors	71
Rank and File	<u>150</u>
Total	<u>396</u>

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

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

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

Distilled Spirits

Market / Competitor Risk

TDI's core consumer base for its products are lower-income consumers. Customers are classified into "economy" and "standard" markets, with monthly income levels of up to ₱10,000 and ₱100,000, respectively. According to the 2006 Philippine National Statistics Coordination Board (NSCB) Family Expenditure Survey and a 2009 Usage, Attitude and Image Survey conducted by the Philippine Survey Research Council, this consumer base comprises approximately 80% of the Philippine population and likewise accounts for approximately 90% of liquor consumption. The preferences of these consumers change for various reasons driven largely by demographics, social trends in leisure activities and health

effects. Entry of new competitive and substitute products to address these customers' preferences may adversely affect the business prospects of TDI if it does not adapt or respond to these changes.

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

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

Raw Material Supply Risk

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

TDI addresses this risk by regularly monitoring its molasses and alcohol requirements. At the start of each annual sugar milling season, TDI normally negotiates with major sugar millers for the purchase in advance of the mill's molasses output at agreed upon prices and terms. It also imports ethyl alcohol in the event that the local supply is not sufficient or if prices are not favorable. Furthermore, TDI's parent company owns a 30.9% stake in Victorias Milling Company, Inc. (VMC) as of December 31, 2018. VMC is the largest sugar producer in the Philippines and currently one of TDI's major supplier of molasses.

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

Credit Risk

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

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

Trademark Infringement Risk

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

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

Regulatory Risk

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

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

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

Safety, health and environmental laws risk

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

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

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

Counterfeiting risk

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

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

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

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

Beverage

Market / Competitor Risk

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

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

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

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

Raw Material Supply Risk

The manufacture of ABI's products depends on raw materials that ABI sources from third-party and related suppliers. Sugar used to produce energy drinks and other sweetened beverages is generally purchased under supply contracts of up to one year. ABHP's hops and barley are primarily sourced abroad. Raw materials used by ABI and its related companies are subject to price volatility caused by changes in global supply and demand, foreign exchange rate fluctuations, weather conditions and governmental controls.

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

Regulatory Risk

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

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

Safety, health and environmental laws risk

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

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

Tobacco

The tobacco or cigarette industry generally has the following risks:

Market / Competitor Risk

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

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

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

Regulatory Risk

Tax regimes, including excise taxes, sales taxes and import duties, can disproportionately affect the retail price of manufactured cigarettes versus other tobacco products. The Company believes that general increases in cigarette taxes are expected to continue to have an adverse impact on PMFTC's sales of cigarettes, such as a possible decline in the overall sales volume of its products or a shift in adult consumer preferences from manufactured cigarettes to other tobacco products, from purchases of high-end tobacco products to low-end products, from purchases of local tobacco products to legal cross-border purchases of lower priced products, or the purchases of illicit products, whether counterfeit or deemed contraband items.

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

Safety, health and environmental laws risk

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

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

Counterfeiting risk

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

Banking

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

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

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

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

There are eight (8) Board Committees:

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

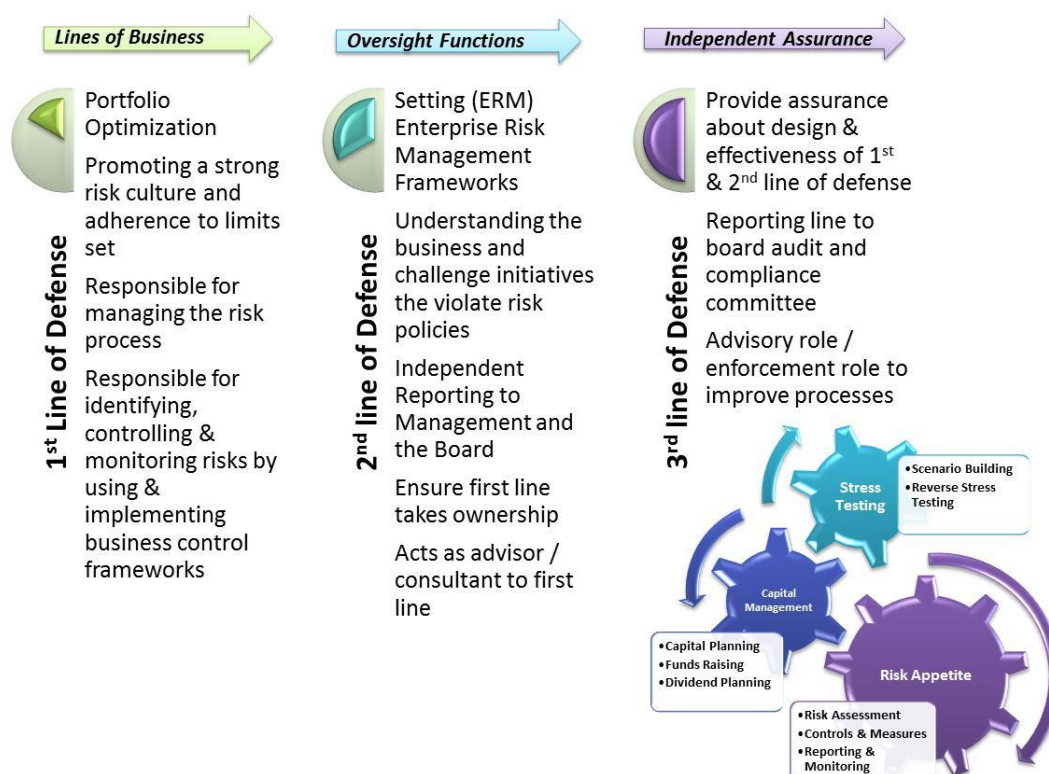
A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the Board and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen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

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

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

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

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



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

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

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

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

In line with the integration of the BSP required ICAAP (internal capital adequacy assessment process) and risk management processes, PNB currently monitors 11 Material Risks (three for Pillar 1 and 11 for Pillar 2). These material risks are as follows:

Pillar 1 Risks:

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

Pillar 2 Risks:

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

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

Risk Categories and Definitions

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

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution (<i>BSP Circular 414</i>)	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	▪ Trend Analysis (Portfolio / Past Due and NPL Levels) ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/Duration Report ▪ Exposure to Derivative/Structured Products	▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS Holding Period ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an	▪ Funding Liquidity Plan ▪ Liquidity Ratios	▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	FI's inability to meet its obligations when they come due.	- Large Fund Providers - MCO - Liquid Gap Analysis	- Large Fund Provider Analysis - Contingency Planning
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	- Interest Rate Gap Analysis - Earnings at Risk Measurement - Duration based Economic Value of Equity	- EAR Limits - Balance Sheet Profiling - Repricing Gap Analysis - Duration based Economic Value of Equity - Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. (BSP Circular 900)	- Risk Identification - Risk Measurement - Risk Evaluation (i.e. Analysis of Risk) - Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment	- Internal Control - Board Approved Operating Policies and Procedures Manuals - Board Approved Product Manuals - Loss Events Report (LER) - Risk and Control Self-Assessment (RCSA) - Key Risk Indicators (KRI) - Business Continuity Management (BCM) - Statistical Analysis
Included in the Operational Risks:			
Reputational Risk (Customer Franchise Risk) Including Social Media Risk and AML Risk	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services. Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories:	- Risk Identification - Risk Measurement - Risk Measurement - Risk Evaluation (i.e. Analysis of Risk) - Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: - Risk Identification – Risk Maps - Risk Measurement and	- Account Closures Report - Service Desk Customer Issues Report/Customer Complaints Monitoring Report - Mystery Caller/Shopper - Evaluation/ Risk Mitigation of negative media coverage - Public Relations Campaign - Review of Stock Price performance - Fraud Management Program - Social Media Management Framework - Social Media Risk Management - AML Compliance Review / Monitoring - Enhanced Due Diligence Program for Customers

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	1. Terrorist financing 2. Unlawful purposes 3. Transactions over certain amounts as defined by AMLC – Ant-Money Laundering Council	Analysis – ICAAP Risk Assessment Major Factors considered: ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators)	
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.		▪ Management Profitability Reports – Budgets vs Actuals ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk /	Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the bank's digital footprint through (not limited to) the following: • Breaches in data security • Sabotage on online (web-based) activities (Ransomware, DDOS, etc) • Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc) • Scams and Frauds (Social engineering, identity thefts, email scams, etc)		▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous infosec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and inbound digital traffic
Information Security / Data Privacy	Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others. Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of income, other financial loss, reputational damage, discrimination, and other harms.		• Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). • Enterprise-wide Implementation of the Information Security Management Systems • Education / InfoSec Awareness is also constantly conducted • Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks • Implementing the enterprise-wide data privacy risk management framework which complies with both

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
			domestic and global requirements Institutionalization of data protection culture within the group through regular awareness programs
Information Technology (including Core Banking Implementation)	Technology Risk result from human error, malicious intent, or even compliance regulations. It threatens assets and processes vital to the bank's business and may prevent compliance with regulations, impact profitability, and damage your company's reputation in the marketplace. Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customer.	- Risk Identification - Risk Measurement - Risk Measurement - Risk Evaluation (i.e. Analysis of Risk) - Risk Management (i.e. Monitor, Control or Mitigate Risk)	- Risk Asset Register - Risk Awareness Campaigns - IT Risk Assessments - Formal Project management Program adoption - Vulnerability Assessment and Penetration Testing - Maintenance and upgrades of disaster recovery sites - Business Users / IT joint engagement for problem resolution - Technology Operations Management Policies & Guidelines - Vendor Management Process Monitoring

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

The bank's Capital Adequacy Ratio as of end of December 2018 stands at 14.35% on a consolidated basis while the bank's Risk Weighted Assets (RWA) as of end 2018 amounted to P735,332 million composed of P653,074 million (Credit Risk Weighted Assets-CRWA), P33,709 million (Market Risk Weighted Assets-MRWA) and), P48,549 million (Operational Risk Weighted Assets-ORWA).

The Bank's total regulatory requirements for the four (4) quarters for 2018 are as follows:

Consolidated	Weighted Exposures (Quarters 2018)			
(Amounts in P million)	As of Dec 31	As of Sept 30	As of June 30	As of Mar 31
CRWA	653,074	618,488	616,672	572,353
MRWA	33,709	33,606	3,857	3,882
ORWA	48,549	48,549	48,549	48,549
Total Risk-Weighted Asset	735,332	700,643	669,078	624,784
Common Equity Tier 1 Ratio	13.55%	14.03%	14.39%	14.55%
Capital Conservation Buffer	7.55%	8.03%	8.39%	8.55%
Tier 1 Capital Ratio	13.55%	14.03%	14.39%	14.55%
Total Capital Adequacy Ratio	14.35%	14.76%	15.14%	15.33%

Presented below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as at December 31, 2018 attributable to the Parent Bank (amounts in Php thousands):

Accounts	Balance in FRP	Accounting differences and other adjustments	Balance in audited financial statements
Capital stock	₱49,965,587	₱—	₱49,965,587
Additional paid-in capital	31,331,251	—	31,331,251
Surplus reserves	620,573	—	620,573
Surplus	46,613,457	—	46,613,457
Net unrealized loss on Available-for-Sale investments	—	(3,181,335)	(3,181,335)
Remeasurement losses on retirement plan	—	(1,520,538)	(1,520,538)
Accumulated translation adjustment	571,109	1,205,814	1,776,923
Other equity reserves	—	53,895	53,895
Share in aggregate reserves on life insurance policies	—	12,280	12,280
Appraisal increment reserve	291,725	(291,725)	—
Other comprehensive income – others	(4,699,250)	4,699,250	—
TOTAL	₱124,694,452	₱977,641	₱125,672,093

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

	2018	2017	2016	2018	2017	2016
A. Tier 1 Capital	121,743.821	112,344.766	104,103.597	117,541.445	108,605.501	101,545.136
A.1 Common Equity Tier 1 (CET1) Capital (Sum of A.1(1) to A.1(13))	121,743.821	112,344.766	104,103.597	117,541.445	108,605.501	101,545.136
For Domestic Banks and Subsidiaries of Foreign Banks						
1 Paid-up common stock	49,965.587	49,965.587	49,965.587	49,965.587	49,965.587	49,965.587
2 Common stock dividends distributable	0.000	0.000	0.000	0.000	0.000	0.000
3 Additional paid-in capital 1/	31,331.251	31,331.251	31,331.251	31,331.251	31,331.251	31,331.251
4 Deposit for common stock subscription	0.000	0.000	0.000	0.000	0.000	0.000
5 Retained earnings	40,887.356	32,797.185	24,866.360	40,372.749	32,335.706	25,215.142
6 Undivided profits 2/	0.000	0.000	0.000	0.000	0.000	0.000
7 Other comprehensive income (Sum of A.1(7)(i) to A.1(7)(v))	(3,335.230)	(4,358.337)	(4,634.165)	(4,128.142)	(5,027.043)	(4,966.844)
8 Minority interest in subsidiary banks which are less than wholly-owned 4/	2,894.857	2,609.080	2,574.564	0.000	0.000	0.000
Minus:						
A.2 Regulatory Adjustments to CET1 Capital (Sum of A.2(1) to A.2(24))	22,109.522	23,401.420	24,454.278	46,665.494	47,409.153	49,874.807
Total outstanding unsecured credit accommodations, both direct and indirect, to						
4 directors, officers, stockholders and their related interests (DOSRI)	1.332	1.816	2.583	1.332	1.816	2.583
Total outstanding unsecured loans, other credit accommodations and guarantees						
5 granted to subsidiaries	781.715	2,264.464	2,014.333	781.715	2,264.464	2,014.333
6 Deferred tax assets 9/	1,502.846	1,500.565	4,350.895	974.086	974.243	4,006.138
7 Goodwill 10/	13,515.765	13,515.765	13,515.765	13,515.765	13,515.765	13,515.765
8 Other intangible assets 11/	2,978.650	2,740.423	1,424.055	2,893.346	2,651.754	1,333.201
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and						
11 as applicable) 13/	0.000	0.000	0.000	25,014.086	24,457.074	25,678.974
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and						
12 consolidated bases and as applicable) 13/	433.669	526.689	281.443	589.619	692.339	458.609
Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for						
14 both solo and consolidated bases) 13/	2,893.612	2,849.765	2,863.271	2,893.612	2,849.765	2,863.271
Other equity investments in non-financial allied undertakings and non-allied						
17 undertakings	1.933	1.933	1.933	1.933	1.933	1.933
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after						
19 deducting related goodwill, if any (for both solo and consolidated bases)	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL COMMON EQUITY TIER 1 CAPITAL	99,634.299	88,943.346	79,649.319	70,875.951	61,196.348	51,670.329
A.3 (A.1 minus A.2)	99,634.299	88,943.346	79,649.319	70,875.951	61,196.348	51,670.329
A.4 Additional Tier 1 (AT1) Capital (Sum of A.4(1) to A.4(4))	0.000	0.000	0.000	0.000	0.000	0.000
A.5 Regulatory Adjustments to Additional Tier 1 (AT1) Capital 18/ (Sum of A.5(1) to A.5(4))	0.000	0.000	0.000	0.000	0.000	0.000
A.6 TOTAL ADDITIONAL TIER 1 CAPITAL	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL TIER 1 CAPITAL	99,634.299	88,943.346	79,649.319	70,875.951	61,196.348	51,670.329
A.7 (Sum of A.3 and A.6)	99,634.299	88,943.346	79,649.319	70,875.951	61,196.348	51,670.329
B. Tier 2 (T2) Capital	5,881.878	4,696.483	4,308.027	5,079.208	4,228.829	3,866.446
B.1 Tier 2 (T2) Capital (Sum of B.1(1) and B.1(6))	5,881.878	4,696.483	4,308.027	5,079.208	4,228.829	3,866.446
For Domestic Banks						
Instruments issued by the bank that are eligible as Tier 2 capital 21/ (Sum of B.1(1)(i) and B.1(1)(ii))						
1 and B.1(1)(i))	0.000	0.000	0.000	0.000	0.000	0.000
(i) Limited life preferred shares		0.000	0.000		0.000	0.000
(ii) Other limited life capital instruments (Unsecured Subordinated Debt was eligible until 31 Dec 2015 as BSP Memorandum No. M2013-008 dated 05 Mar 2013)		0.000	0.000		0.000	0.000
2 Deposit for subscription of T2 capital		0.000	0.000		0.000	0.000
3 Appraisal increment reserve – bank premises, as authorized by the Monetary Board General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted	291.725	291.725	291.725	291.725	291.725	291.725
4 assets in computing the denominator of the risk-based capital ratio	5,590.153	4,404.758	4,016.302	4,787.483	3,937.104	3,574.721
5 Minority interest in subsidiary banks which are less than wholly-owned 22/		0.000	0.000		0.000	0.000
For Philippine Branch of a Foreign Bank						
General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted						
6 assets in computing the denominator of the risk-based capital ratio		0.000	0.000		0.000	0.000
B.2 Regulatory Adjustments to Tier 2 capital (Sum B.2(1) to B.2(9))	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL TIER 2 CAPITAL	5,881.878	4,696.483	4,308.027	5,079.208	4,228.829	3,866.446
B.3 (B.1 minus B.2)	5,881.878	4,696.483	4,308.027	5,079.208	4,228.829	3,866.446
C. TOTAL QUALIFYING CAPITAL (Sum of A.7 and B.3)	105,516.177	93,639.829	83,957.346	75,955.159	65,425.177	55,536.775
Total Risk Weighted On-Balance Sheet Assets	614,661.736	527,831.541	446,101.620	539,921.678	467,534.043	397,730.498
20%	13,149.331	11,018.591	13,482.401	11,251.723	9,017.868	11,676.125
50%	30,834.114	34,373.114	24,819.389	29,260.718	32,824.606	22,328.759
75%	10,991.050	12,616.170	18,761.908	10,476.584	12,105.697	18,039.059
100%	539,606.578	449,816.496	371,161.410	473,469.132	397,208.424	330,044.869
150%	20,080.663	20,007.170	17,876.512	15,463.521	16,377.448	15,641.686
Total Risk-Weighted Off-Balance Sheet Assets	34,165.730	23,936.175	13,052.998	34,022.330	23,880.982	12,953.775
20%	0.000	26.308	0.000	0.000	26.308	0.000
50%	6.310	33.584	31.543	6.310	33.584	31.543
75%	1,137.038	0.000	173.496	1,137.038	0.000	173.496
100%	33,022.382	23,876.283	12,847.959	32,878.982	23,821.090	12,748.736
150%	0.000	0.000	0.000	0.000	0.000	0.000
Total Counterparty Risk Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions) [Part III.3]	3,375.977	3,256.262	1,622.161	3,375.977	3,256.262	1,622.161
Total Counterparty Risk Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	870.251	801.313	498.213	839.720	763.321	471.136
TOTAL CREDIT RISK WEIGHTED ASSETS	653,073.694	555,825.291	461,274.992	578,159.705	495,434.608	412,777.570
Total Market Risk-Weighted Assets	33,709.206	9,880.165	2,752.606	33,564.159	9,909.562	2,703.429
Total Operational Risk-Weighted Assets	48,549.404	44,400.786	40,073.477	41,364.568	38,428.181	35,831.511
Total Risk Weighted Assets	735,332.304	610,106.242	504,101.075	653,088.432	543,772.351	451,312.510
Capital Ratios						
Common Equity Tier 1 Ratio	13.55%	14.58%	15.80%	10.85%	11.25%	11.45%
Capital Conversion Buffer	7.55%	8.58%	9.80%	4.85%	5.25%	5.45%
Tier 1 Capital Ratio	13.55%	14.58%	15.80%	10.85%	11.25%	11.45%
Total Capital Adequacy Ratio	14.35%	15.35%	16.65%	11.63%	12.03%	12.31%

Credit Risk-Weighted Assets as of December 31, 2018

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

In P Millions	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	17,321		17,321	17,291	30				
Due from BSP	102,725		102,725	102,725					
Due from Other Banks	20,468		20,468		12,415	6,400		1,653	
Financial Asset at FVPL	14		14					14	
Available for Sale	1,508		1,508	441	359	25		683	
Held to Maturity (HTM)	100,649	4,856	95,793	37,281	10,263	42,008		6,241	
Unquoted Debt Securities									
Loans & Receivables	578,717	16,690	562,027	1,769	42,680	13,236	14,655	485,790	3,897
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	22,466		22,466	22,466					
Sales Contracts Receivable	10,984		10,984					10,248	736
Real & Other Properties Acquired	8,754		8,754						8,754
Other Assets	34,976		34,976					34,976	
Total On-Balance Sheet Asset	898,582	21,546	877,036	181,973	65,747	61,669	14,655	539,605	13,387
Total Risk Weighted Asset - On-Balance Sheet				0	13,149	30,834	10,991	539,605	20,081
Total Risk Weighted Asset - Off-Balance Sheet Asset						6	1,137	33,022	
Counterparty Risk Weighted Asset in Banking Book					574	2,802			
Counterparty Risk Weighted Asset in Trading Book					16	646		208	

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

Market Risk-Weighted Assets as of December 31, 2018

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

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in P Million)	Capital Charge (a)	Adjusted Capital Charge (b) $b = a * 125\%$ ^{1/}	Market Risk Weighted Exposures (c) $c = b * 10$ ^{2/}
Interest Rate Exposures	2,482.838	3,103.547	31,035.470
<i>Specific Risk</i>	853.086	1,066.358	10,663.580
<i>General Market Risk</i>	1,629.751	2,037.189	20,371.890
Equity Exposures	88.516	110.646	1,106.456
Foreign Exchange Exposures	125.382	156.728	1,567.280
Total	2,696.736	3,370.921	33,709.206
Notes:			
^{1/} Capital charge is multiplied by 125% to be consistent with BSP required minimum CAR of 10%, which is 25% higher than the Basel minimum of 8%.			
^{2/} Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)			

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

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

Specific Risk

Specific Risk which reflects the type of issuer of the combined portfolio of financial assets designated at Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) is P853.086 million and is composed of securities with various tenors that are subjected to risk weight ranging from 0% to 8%. 65% of these securities are issued by Republic of the Philippines (ROP) while 22% is attributable to debt securities rated AAA to BBB- issued by other entities. The remaining portfolio consists of all other debt securities that are issued by other entities. 36% of this combined portfolio is composed of USD-denominated debt securities issued by the Philippines with applicable risk weight of 0.25% to 1.6%. On the other hand, the Bank's holding in peso denominated securities which are estimated at 29% of the portfolio have zero risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in P million)							
	Positions	Risk Weight					
		0.00%	0.25%	1.00%	1.60%	8.00%	Total
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	17,125.859					
	Short	61.298					
FCY-denominated debt securities issued by the Philippine NG/BSP	Long		3,677.749	1.360	17,530.229		
	Short						
Debt securities/derivatives with credit rating BBB- and above issued by other sovereigns	Long		1,108.343	28.907	1,833.292		
	Short						
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long		802.282	3,116.596	9,217.659		
	Short						
All other debt securities/derivatives that are below BBB- and unrated	Long					4,379.350	
	Short						
Subtotal	Long	17,125.859	5,588.374	3,146.863	28,581.180	4,379.350	-
	Short	61.298	-	-	-	-	-
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	13.971	31.469	457.299	350.348	853.086
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		-	13.971	31.469	457.299	350.348	853.086

General Market Risk – Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is P469.159 million. In terms of weighted positions, the greater portion (27%) of the Bank's capital charge comes from the Over 5 years to 7 years bucket at P125.749 million as well as Over 7 years to 10 years bucket (22%) at P104.173 million or a combined capital charge of P229.922 million. The remaining weighted positions (51%) are distributed over the remaining buckets.

Currency: PESO							
PART IV.1d GENERAL MARKET RISK (Amounts in P million)							
Zone	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions	
			Total Individual Positions			Long	Short
	Coupon 3% or more	Coupon less than 3%	Long	Short			
1	1 month or less	1 month or less	14,642.416	4,748.080	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	1,661.290	4,050.195	0.20%	3.323	8.100
	Over 3M to 6M	Over 3M to 6M	418.028	-	0.40%	1.672	-
	Over 6M to 12M	Over 6M to 12M	2,113.021	2.602	0.70%	14.791	0.018
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	1,272.455	-	1.25%	15.906	-
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	4,681.987	-	1.75%	81.935	-
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	4,289.175	-	2.25%	96.506	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	1,177.928	-	2.75%	32.393	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	3,869.189	-	3.25%	125.749	-
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	2,777.946	47.741	3.75%	104.173	1.790
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	4.361	-	4.50%	0.196	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	-	-	5.25%	-	-
	Over 20Y	Over 10.6Y to 12Y	-	-	6.00%	-	-
		Over 12Y to 20Y	-	-	8.00%	-	-
		Over 20Y	-	-	12.50%	-	-
Total			36,907.798	8,848.618		476.644	9.909
Overall Net Open Position							466.735
Vertical Disallowance							0.513
Horizontal Disallowance							1.911
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							469.159

General Market Risk – US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is P1,125.068 million. The exposure is concentrated under the Over 15 years to 20 years' time bucket with risk weight of 5.25% resulting in a capital charge of P445.768 million. The balance is distributed across other time buckets up to over 20 years with capital charge ranging from P11.195 million to P178.889 million

Currency: USD							
PART IV.1d GENERAL MARKET RISK (Amounts in P0.000 million)							
Zone	Time Bands		Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions	
			Total Individual Positions				
	Coupon 3% or more	Coupon less than 3%	Long	Short		Long	Short
1	1 month or less	1 month or less	5,993.908	29,362.830	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	14,293.953	21,284.094	0.20%	28.588	42.568
	Over 3M to 6M	Over 3M to 6M	6,288.613	-	0.40%	25.154	-
	Over 6M to 12M	Over 6M to 12M	1,599.254	-	0.70%	11.195	-
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	4,116.802	2,672.741	1.25%	51.460	33.409
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	4,649.689	-	1.75%	81.370	
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	2,998.584	-	2.25%	67.468	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	4,100.235	-	2.75%	112.756	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	3,750.381	-	3.25%	121.887	-
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	10,456.855	5,686.477	3.75%	392.132	-
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	316.942	-	4.50%	14.262	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	8,490.828	-	5.25%	445.768	-
	Over 20Y	Over 10.6Y to 12Y	535.517	-	6.00%	32.131	-
		Over 12Y to 20Y	-	-	8.00%	-	-
		Over 20Y	-	-	12.50%	-	-
Total			67,591.560	59,006.143		1,384.173	289.220
Overall Net Open Position							1,094.952
Vertical Disallowance							27.524
Horizontal Disallowance							5.592
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							1,128.068

General Market Risk – Third currencies

The Bank is likewise exposed to various third currencies contracts most of them are in less than 30 days thus carries a 0% risk weight. The combined general market risk charge for contracts in Singapore Dollar (SGD), Hong Kong Dollar (HK), and Euro (EUR) is P32.524 million with risk weight ranging from 0.20% and 0.40%.

PART IV.1d GENERAL MARKET RISK (Amounts in P million)										
Currency	Time Bands	Total Debt Securities & Debt Derivatives/Interest Rate Derivatives		Risk Weight	Weighted Positions		Overall Net Open Position	Vertical dis allowance	Horizontal dis allowance within	Total General Market Risk Capital Charge
		Long	Short		Long	Short				
AUD	1 month or less	-	7.406	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	7.406		-	-	-	-	-	-
SGD	1 month or less	76.927	7.686	0.00%	-	-				
	Over 1M to 3M	364.888	262.816	0.20%	0.730	0.526				
TOTAL		441.815	270.501		0.730	0.526	0.204	0.053	-	0.257
JPY	1 month or less	2,862.861	502.090	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		7,333.189	2,946.431		-	-	-	-	-	-
HKD	1 month or less	26.317	447.905	0.00%	-	-				
	Over 1M to 3M	-	790.054	0.20%	-	1.580				
	Over 3M to 6M	-	2,047.628	0.40%	-	8.191				
TOTAL		26.317	3,285.588		-	9.771	9.771	-	-	9.771
EUR	1 month or less	11,925.042	128.244	0.00%	-	-				

	Over 1M to 3M	11,248.241	-	0.20%	22.496	-				
TOTAL		23,173.283	128.244		22.496	-	22.496	-	-	22.496
GBP	1 month or less	-	159.979	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	159.979		-	-	-	-	-	-
CAD	1 month or less	-	77.443	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	77.443		-	-	-	-	-	-
TOTAL THIRD CURRENCIES										32.524

Equity Exposures

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

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

Foreign Exchange Exposures

The Bank's exposure to Foreign Exchange (FX) Risk carries a capital charge of P1,567.280 million. This includes P1,051.600 million arising from exposure in Non-Deliverable Forwards (NDF)s) which carries a 4% risk weight while P515.680 million is from Foreign Exchange Exposures with 8% risk weight in FX assets and FX liabilities in USD, and third currencies not limited to JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2018)						
		Closing Rate USD/PHP:				52.58
Nature of Item	Currency	In Million USD Equivalent				In Million Pesos
		Net Long/(Short) Position (excluding options)		Net Delta-Weighted Positions of FX Options	Total Net Long/(Short) Positions	Total Net Long/(Short) Position
		Banks	Subsidiaries /Affiliates			
		1	2	3	4=1+2+3	5
A. Currency						
A.1 U.S. Dollar	USD	(11,589)	1,782		(9,808)	(515,680)
A.2 Japanese Yen	JPY	0.294	0.000		0.294	15,452
A.3 Swiss Franc	CHF	0.098	0.000		0.098	5,138
A.4 Pound Sterling	GBP	0.806	0.000		0.806	42,388
A.5 Euro	EUR	0.990	0.000		0.990	52,056
A.6 Canadian Dollar	CAD	0.246	0.000		0.246	12,955
A.7 Australian Dollar	AUD	0.153	0.000		0.153	8,061
A.8 Singapore Dollar	SGD	0.653	0.000		0.653	34,355
A.9 Foreign currencies not separately specified above		0.650	0.853		0.650	0.853
Arab Emirates Dirham	AED	0.003			0.003	
Bahrain Dinar	BHD	0.004			0.004	
Brunei Dollar	BND	0.009			0.009	
Yuan Renminbi	CNY	0.328			0.328	
Hongkong Dollar	HKD	0.095			0.095	
Korean Won	KRW	0.005			0.005	
Malaysian Ringgit	MYR	(0.000)			(0.000)	
Norwegian Krone	NOK	0.000			0.000	
New Zealand Dollar	NZD	0.070			0.070	
Saudi Riyal	SAR	0.324			0.324	
Thai Baht	THB	0.001			0.001	
Taiwan Dollar	TWD	0.013			0.013	
A. 10 Sum of net long positions						215,246
A.11 Sum of net short positions						(515,680)
B. Overall net open positions ^{1/}						515,680
C. Risk Weight						8%
D. Total Capital Charge for Foreign Exchange Exposures (B. times C.)						41,254
E. Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)						51,568
F. Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						515,680
G. Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (Part IV.3a, Item F)						1,051,600
H. Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)						1,567,280
^{1/} Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.						

Operational Risk – Weighted Assets

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

(Amounts in P Million) Consolidated as of December 31, 2018	Gross Income	Capital Requirement (15% x Gross Income)
2015(Year 3)	23,884	3,583
2016(Year 2)	25,096	3,764
2017(Last Year)	28,699	4,305
Average for 3 Years		3,843
Adjusted Capital Charge	Average x 125%	4,855
Total Operational Risk Weighted Asset		48,549

Property Development

Competitor Risk

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

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

Market Risk

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

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

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

Regulatory Risk

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

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

Credit Risk

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

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

Financial Risk

Fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect in the Company's and its customers' ability to obtain financing. Higher interest rates make it more expensive for the Company to borrow funds to finance its ongoing projects or to obtain financing for new projects. In addition, the Company's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by Bangko Sentral of the

Philippines (BSP) on bank lending. These could materially and adversely affect the Company's business, financial condition and results of operations.

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

Data Privacy Risk

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

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

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

Item 2. Properties

Distilled Spirits

TDI and its subsidiaries own the following real estate properties:

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

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by TDI				
Cabuyao, Laguna	Production Plant	170,887	2,155,881	2019
Pinamucan, Batangas	Land rental	18,522	367,500	2019
Calaca, Batangas	Tank rental		555,915	2019
Murcia, Neg. Occ.	Production Plant	51,448	322,615	2019
El Salvador, Mis. Or.	Production Plant	108,843	106,293	2019
Leased by ADI				
Lian, Batangas	Distillation Plant	50,000	50,000	2021
	Totals	399,700	3,588,204	

Except for the Distillation Plant in Lian Batangas, all lease contracts have a term of one year, renewable at the end of the lease term.

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

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

ADIs distillery plant is in Lian, Batangas. ADI has two distillation plants that produces ethyl alcohol. It also has a 100 kiloliters per day (KLPD) Dehydration Plant started its operation, that is composed of Classical Twin Bed Molecular Sieves which removes water from rectified spirit to produce bioethanol. Likewise , it has alcohol and molasses storage, power generation and wastewater treatment facilities In 2015, a two(2) megawatt solar power generating facility was also put up in ADIs plant. All transportation equipment owned by ADI are in good condition. There are no mortgage or lien or encumbrance over the properties and there are no limitations as to its ownership and usage.

Beverage

ABI and its subsidiaries own the following real estate properties:

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

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

Location	Present Use	Area (sqm)	Monthly Rental	Lease Expiry Date
Leased by ABI				
Ayala Ave., Makati City	Head Office	1,677	1,067,092	August 2022
Cabuyao, Laguna	Production Plant	542,989	1,719,819	March 2021
El Salvador, Mis. Or.	Production Plant	1,063,103	250,278	December 2022
Leased by IPI				
San Fernando, Pampanga	Production Plant	85,000	661,500	December 2020
Leased by PWI				
Cabuyao, Laguna	Production Plant	82,600	560,581	December 2018
Leased by APBM				
Myanmar	Production Plant	9,318	US\$24,502	December 2018
Myanmar	Warehouse	2,602	7,661	June 2019
Myanmar	Warehouse	2,007	7,019	November 2019
Myanmar	Staff House	372	3,831	February 2019

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

The plant and equipment are located at the following areas:

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

Tobacco

The following comprises properties of FTC:

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

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

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

Banking

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

Disclosed in Exhibit I of PNB's 17A is the list of Bank-owned properties as of December 31, 2018.

The Bank leases the premises occupied by some of its branches. Lease contracts are generally for periods ranging from 1 to 25 years and are renewable upon mutual agreement of both parties under certain terms and conditions.

Disclosed in Exhibit II of PNB's 17A is the list of Bank's branches that are under lease as of December 31, 2018.

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

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

Property Development

The Company's investment properties consist of:

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

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

The Company also entered into a lease agreement with third parties for the lease of parcels of land located in Ortigas Center, Pasig City where one of the Company's projects is located. The annual rental expense, recognized as part of the cost of rental income amounted to ₱39.4 million in 2018 and 2017.

The lease agreement shall be for a period of 20 years commencing on January 1, 2011 and renewable for another 20 years at the option of the lessee, with the lease payment subject to an annual escalation fee of 5%. Total annual rental payment amounted to ₱18.3 million in 2018 and ₱17.4 million in 2017.

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

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

The Company's real estate properties consist of :

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

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

ETON CITY INC.	
<i>South Lake Village</i>	<i>Sta. Rosa, Laguna</i>
<i>Riverbend</i>	<i>Sta. Rosa, Laguna</i>
<i>Tierrabela</i>	<i>Sta. Rosa, Laguna</i>
<i>Village Walk</i>	<i>Sta. Rosa, Laguna</i>
<i>Land</i>	<i>Sta. Rosa, Laguna</i>

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

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

Currently, the Company has a renewable cancellable lease agreement with PNB, which generally provides for a fixed monthly rent for the Company's office spaces. The Company has determined that all significant risks and rewards of ownership of these properties are retained by PNB as lessor. Thus, the Company considers these lease agreements as operating leases. Rental expense recognized by the Company included under "Outside services" amounted to ₱17.5 and ₱21.0 million in 2018 and 2017.

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

Item 3. Legal Proceedings

Distilled Spirits

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

Trademark Infringement Suit

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

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

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

On December 18, 2013, the Company filed a petition before the Supreme Court questioning the decision of the CA. In 2014, the Company filed a motion for reconsideration with the Court of Appeals. But such motion was denied. On September 29, 2015 the Company filed another petition for review before the Supreme Court. The Company is currently waiting for the Supreme Court's resolution as of December 31, 2018.

Opposition to Registration of Brand Name

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

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

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

On August 22, 2014, TDI filed a Motion for Reconsideration with the Court of Appeals. On November 13, 2014, the Court of Appeals sustained its decision dated July 23, 2014. On December 12, 2014, TDI filed a Petition for Review with the Supreme Court to reverse the decision of Court of Appeals and reinstate the findings of IPO. TDI is currently awaiting Supreme Court's decision as of December 31, 2018.

Beverage

ABI maintains a legal department whose main function is to pursue collection cases and handle litigation arising from labor disputes. As of December 31, 2018, ABI does not have any significant legal proceedings either against it or in pursuit of another party besides those arising from the ordinary course of business.

Tobacco

Sandiganbayan case against Tan Companies

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

Banking

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

Property Development

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

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

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

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

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

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

Kingston Tuscani subsequently filed a petition for review with the Supreme Court. On August 15, 2018, the Supreme Court issued a Resolution denying the petition for failure to show reversible error in the challenged decision so as to warrant the exercise of the Court’s appellate jurisdiction. Kingston Tuscani thereafter filed a Motion for Reconsideration on November 5, 2018 with the Supreme Court where it is awaiting resolution.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

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

1. Market Information

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

STOCK PRICES			
	CLOSE	HIGH	LOW
2016			
1 st Quarter	15.60	16.78	13.70
2 nd Quarter	15.92	16.22	13.18
3 rd Quarter	15.30	17.98	15.20
4 th Quarter	12.56	15.92	12.48
2017			
1 st Quarter	16.02	17.00	12.00
2 nd Quarter	14.70	16.98	14.42
3 rd Quarter	17.58	18.90	14.78
4 th Quarter	18.74	19.70	16.98
2018			
1 st Quarter	18.80	25.30	18.34
2 nd Quarter	18.08	22.15	17.90
3 rd Quarter	14.40	18.64	14.40
4 th Quarter	16.60	17.60	12.78
2019			
March 18, 2019*	16.28	16.42	16.02

*Latest practicable trading date

2. Holders

The number of shareholders of record as of December 31, 2018 was 370. Common shares outstanding as of December 31, 2018 were 10,821,388,889. The top 20 stockholders as of December 31, 2018 are as follows:

<u>Stockholders' Name</u>	<u>No. of Common Shares Held</u>	<u>% to Total</u>
Tangent Holdings Corp.	8,046,318,193	74.3557
PCD Nominee Corporation (Non-Filipino)	1,464,982,722	13.5378
PCD Nominee Corporation (Filipino)	548,506,485	5.0687
Dragon Castle Holdings Ltd.	198,535,900	1.8347
Hinner Resources Ltd.	157,195,600	1.4526
Advance Goal Ltd.	152,812,600	1.4121
Absolute Classic Ltd.	95,811,000	0.8854
Conqueror Vision Ltd.	81,913,000	0.7570
Conway Equities, Inc.	35,000,000	0.3234
Pan Asia Securities Corp.	24,448,000	0.2259
Goldlabel Equities Corp.	5,039,800	0.0466
All Seasons Realty Corp.	4,974,794	0.0460

Dragonstar Management Corp.	1,773,900	0.0164
Kentron Holdings & Equities Corp.	569,800	0.0053
Luys Securities Co., Inc.	501,000	0.0046
Mandarin Securities Corp.	358,000	0.0033
Atlas Agricultural & Mercantile & Dev.	299,475	0.0028
Honorio Poblador Jr.	295,230	0.0027
Donald J.D. Nye	272,250	0.0025
Alex M. Tiongco	83,600	0.0007

* LTG has no preferred shares.

3. Dividends

a.) Dividend declarations

On April 12, 2016, the BOD of LTG approved the declaration and distribution of cash dividends of ₱0.15 per share to all stockholders of record as of April 28, 2016. The dividends were paid on May 6, 2016.

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

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

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

- a. “To declare dividends out of the surplus profits when such profit shall, in the opinion of the directors, warrant the same.” (par. 3, Article V (Duties of directors, Amended By-Laws).
- b. “ In lieu of closing the stock transfer book of the Corporation, The Board of Directors may fix in advance an appropriate date consistent with the relevant regulations as may have been issued by the Securities and Exchange Commission and/or the Philippine Stock Exchange, preceding the date of any annual or special meeting of the stockholders or the date for the allotment or rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining the consent of stockholders for any purpose, as record date for the determination of the stockholders entitled to vote, to notice at any such meeting and adjournment thereof, or to any such allotment of rights, or to give such consent, as the case may be notwithstanding any transfer of any stock on the books of the Corporation after such record date fixed as aforesaid, provided, however, that for purposes of declaring dividends, The Board of Directors may fix in advance a date to be determined in accordance with law, for the payment or distribution of such dividend as a record date for the determination of stockholders entitled to such dividend.”(par C, Article XIX(Transfer of Stock, Amended By-Laws).

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

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

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

RESULTS OF OPERATIONS

The following discussion and analysis of the Group's financial condition and results of operations should be read in conjunction with the consolidated financial statements as at December 31, 2018, 2017 and 2016 included in this report.

2018 vs 2017

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2018	2017
Revenues	₱75,559	₱63,727
Cost of Sales	35,965	29,680
Equity in Net Earnings of Associates	7,967	3,964
Operating Expenses	31,003	27,073
Operating Income	16,558	10,938
Other income-net	8,990	7,062
Income Before Income Tax	25,548	18,000
Net Income (Loss) from Discontinued Operations	(220)	70
Total Net Income	20,558	14,581
Net Income Attributable to Equity Holders of the Parent Company	16,195	10,831

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

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

Consolidated revenues amounted to ₱75.6 billion for the year ended December 31, 2018, 18.6% higher than the ₱63.7 billion recognized in 2017 on account of the increased revenues in the banking, distilled spirits, beverage and property development segments.

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

Operating expenses amounted to ₱31.0 billion in 2018 from ₱27.1 billion in 2017 or an increase of 14.5%. This was as a result of increased general and administrative expenses by 16.1%, from ₱24.4 billion in 2017 to ₱28.3 billion in 2018 and increase of 0.3% in selling expenses.

SEGMENT OPERATIONS

Banking

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

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

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

Miscellaneous income increased by 44.5% to ₱7.4 billion from ₱5.1 billion, due to higher gain from the sale of Real and Other Properties Acquired (ROPA). On the other hand, trading and net foreign exchange gains were lower at ₱1.1 billion in 2018 compared to 2017's ₱2.2 billion.

Operating expenses increased by 16.3% primarily due to higher provisioning on loans, taxes and licenses, depreciation, occupancy, personnel costs and miscellaneous expenses.

Beverage

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

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

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

Distilled Spirits

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

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

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

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

Property Development

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

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

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

Tobacco

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

2017 vs 2016

CONSOLIDATED RESULTS OF OPERATIONS

(In millions)	2017	2016
Revenues	₱63,727	₱57,830
Cost of Sales	29,680	26,127
Equity in Net Earnings of Associates	3,964	2,786
Operating Expenses	27,073	27,389
Operating Income	10,938	7,107
Other income-net	7,062	5,761
Income Before Income Tax	18,000	12,862
Net Income from Discontinued Operations	70	1,394
Total Net Income	14,581	12,089
Net Income Attributable to Equity Holders of the Parent Company	10,831	9,390

LT Group, Inc. (LTG) reported a consolidated net income of ₱14.6 billion for the year ended December 31, 2017, 20.6% higher than the ₱12.1 billion reported in 2016.

The consolidated net income attributable to equity holders of LTG was ₱10.8 billion for 2017, 15.3% more than the ₱9.4 billion in 2016. The banking segment's net income was higher by 15.9% from ₱7.4 billion for the year ended December 31, 2016 to ₱8.6 billion in 2017. LTG's share in the net income of the banking segment improved from ₱4.1 billion in 2016 to ₱4.8 billion in 2017. In 2016, LTG's share in net income of the banking segment included a ₱724 million elimination on the gain from sale of land by PNB to Eton. Including this elimination, the bank's net contribution to LTG in 2016 was ₱3.4 billion, and 2017's ₱4.68 billion, 41.3% higher year-on-year. The tobacco segment's net income increased by ₱1.8 billion from ₱2.6 billion in 2016 to ₱4.4 billion in 2017. Distilled spirits segment net income was ₱631 million, a decrease of 30.5% versus the 2016 income recorded. The beverage and property development segments' net income were ₱552 million and ₱348 million in 2017 were lower by 68.6% and 10.3%, respectively, compared to the incomes in 2016. Equity in net earnings from our stake in VMC contributed ₱174 million for 2017. As of December 31, 2017, LTG's stake in VMC stood at 30.9%.

Consolidated revenues amounted to ₱63.8 billion for the year ended December 31, 2017, 10.4% better than the ₱57.8 billion recognized in 2016 on account of the higher revenues in the banking, distilled spirits and beverage segments.

Cost of sales and services increased by 13.6% from ₱26.1 billion in 2016 to ₱29.7 billion in the current year, primarily attributable to higher interest expense on deposit liabilities and increased cost of sales of the distilled spirits and beverage segments mainly due to higher excise taxes and raw material costs. The property development segment reported a 39.8% decline in cost of sales as a result of lower booked sales from real estate development projects.

Operating expenses amounted to ₱28.3 billion in 2017 from ₱27.9 billion in 2016 or an increase of 1.5%. This was as a result of higher selling expenses, which amounted to ₱2.4 billion in 2016 as against ₱2.7 billion in 2017.

Other income increased by 30.4% primarily due to higher gain on sale of assets. Interest income and net foreign exchange gains were higher by 47.6% and 10.8%, respectively. Interest expense was lower by 29.9% due to loan settlements.

SEGMENT OPERATIONS

Banking

The banking segment's net income was ₱8.6 billion for the year ended December 31, 2017, higher by 15.9% compared to the ₱7.4 billion recorded for the same period in 2016.

Interest income from banking operations was at ₱27.6 billion in 2017, 13.4% higher than the ₱24.3 billion realized last year, mainly on account of higher interest income from loans and receivables, deposits with banks and others and interbank loans receivable.

Interest expense was at ₱5.6 billion for 2017, an increase of 15.5% from the ₱4.8 billion recorded in same period of 2016 resulting to a net interest income of ₱22.0 billion, 12.9% higher year-on-year.

Net service fees and commission income exceeded 2016's ₱2.7 billion to ₱3.2 billion in 2017, attributable to higher deposit and trade related fees, arranger's fees, bancassurance and other bank commission, underwriting and securities dealership transactions, as well as loan related and other fee income.

Miscellaneous income declined by 7.2% to ₱8.6 billion, due to lower mark-to market gains on trading and investment securities.

Beverage

The beverage segment's net income was ₱552 million for the year ended December 31, 2017, 68.5% lower than the ₱1.76 billion in 2016.

Revenues of the beverage segment were higher by 17.2% to ₱13.9 billion in 2017 from ₱11.9 billion in 2016. This was driven by the continued growth in the revenues of Absolute and Summit bottled water and Vitamilk soymilk. However, gross profit margin dipped from 34% in 2016 to 31% in 2017, on account of the increase in cost of sales by 22.7% due to higher depreciation, labor costs, fuel and utilities expenses. Likewise, operating expenses increased by 8.8% to ₱2.4 billion in 2017 from ₱2.2 billion in 2016 on account of higher advertising and promotional expenses, salaries and wages, taxes and licenses and miscellaneous expenses.

Distilled Spirits

The distilled spirits segment posted a net income of ₱631 million for the year ended December 31, 2017, 30.5% lower than the ₱908 million reported in 2016 due to lower bio-ethanol sales.

Net revenues were higher by 11.9% to ₱16.8 billion in 2017 compared to 2016's ₱15.0 billion due to higher volumes of liquor especially the flagship product Tanduay Five Years.

Cost of sales increased by 14.5% to ₱14.1 billion in 2017 as against ₱12.3 billion in 2016 primarily due to higher distilled spirits volumes, alcohol costs and increase in excise taxes. Consequently, gross profit margin was at 16.2% in 2017, lower than the 18.1% in 2016.

Operating expenses was at ₱1.9 billion in 2017, 22.7% higher than the ₱1.6 billion in 2016 on account of higher advertising, freight and handling, management and professional fees and other selling expenses.

Property Development

The property development segment reported a net income of ₱348 million for the year 2017, slightly lower than the ₱390 million for 2016.

Residential property sales were lower by 45.6% to ₱845 million for 2017. Rental revenues in 2017 accounted for ₱1.4 billion or 62.2% of revenues, representing a 8.6% growth over the same period in 2016, as the lease contracts were renewed at higher rates for the BPO offices.

Operating expenses were higher by 7.3% from ₱682 million in 2016 to ₱732 million in 2017, mainly on account of higher repairs and maintenance expense, depreciation and outside services fees.

Tobacco

The tobacco segment's net income was ₱4.4 billion for the year 2017, 70.3% higher than the ₱2.6 billion in 2016 on account of the increase in equity in net earnings from PMFTC from ₱2.6 billion in 2016 to ₱4.4 billion in 2017.

FINANCIAL CONDITION

2018

The Company's consolidated Total Assets as of December 31, 2018 amounted to ₱1,097.8 billion, an increase of 19.7% from ₱917.1 billion as of December 31, 2017. This was mainly on account of the increase in Current Assets by 14.3% or ₱59.4 billion and increase in Noncurrent Assets of ₱121.3 billion or 24.2%.

The increase in consolidated Current Assets by 14.3% from ₱416.6 billion as of December 31, 2017 to ₱475.0 billion was primarily due to the higher Current Portion of Loans and Receivables on account of the increased booking of loans and higher Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)- formerly called AFS Investments and Financial Assets at Fair Value through Profit or Loss, resulting from various reclassifications to Financial Assets at Amortized Cost formerly called Held to Maturity (HTM) Investments by the bank. Cash and Cash Equivalents were higher from ₱174.0 billion as of end-2017 to ₱176.5 billion as of December 31, 2018. Inventories and Other Current Assets declined by ₱0.26 billion and ₱3.4 billion, respectively, mainly due lower inventory level of the property development segment while for Other Currents Assets it declined because of the banking segments lower levels of FXTN and miscellaneous assets. Assets of Disposal Group Classified as Held for Sale pertains to the banking segment's PNB General Insurance (PNB Gen) assets which will be exchange for shares in Allied Bankers Insurance Corporation (ABIC), an affiliate.

The 24.2% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Financial Assets at Amortized Cost, Property, Plant and Equipment and Noncurrent Portion of Loans Receivables. Noncurrent Financial Assets at Amortized Cost were higher by 273.2% due to the bank's reclassification of Financial Assets at FVTOCI to HTM investments. Noncurrent Financial Assets at FVTOCI decreased by 31.9% to ₱48.1 billion from ₱70.7 billion. Noncurrent portion of Loans and Receivables were higher by ₱40.1 billion due to higher booking of loans by the bank. Property, plant and equipment (PPE) – at cost was higher by ₱0.8 billion due to various acquisitions during the year 2018 while PPE – at appraised was higher by ₱24.1 billion due to the banking segments new appraisal of properties in 2018. Investment in Associates and Joint Ventures was higher by ₱3.1 billion to ₱20.3 billion, due to higher equity earnings from PMFTC. Other noncurrent assets and Deferred income tax assets were higher by ₱0.8 billion and ₱0.4 billion, respectively as compared to end-2017 balances.

Consolidated Total Liabilities increased by 19.1% to ₱859.4 billion as of December 31, 2018 from ₱721.8 billion as of December 31, 2017. This was on account of the increase in Total Current Liabilities by 16.5% from ₱665.4 billion in December 31, 2017 to ₱775.0 billion as of the end of the current period and increase in Noncurrent Liabilities of 62.5% from ₱56.4 billion to ₱91.6 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱672.3 billion as of December 31, 2018, 14.3% higher than December 31, 2017. Accounts Payable and Accrued Expenses increased to ₱22.5 billion or 2.2% higher than ₱22.0 billion as of December 31, 2017 due to the various accruals as of end-2018. Income tax payable is lower by 9.1% versus the December 31, 2017 level due to the income tax payments made during the year 2018. Financial liabilities at Fair Value through Profit or Loss were higher by 37.0% from ₱0.3 billion in December 31, 2017 to ₱0.5 billion as of December 31, 2018, on account of the bank's higher derivative liabilities. Short-term debt was higher by 32.3% to ₱2.1 billion in the current period from ₱1.6 billion in December 31, 2017, due to the availment of a loan by the beverage segment. Current portion of Due to Related Parties increased to ₱0.1 billion on account of reclassifications made during the year. Current portion of Bills and Acceptances Payable increased by 65.3% mainly due to the higher currently maturing bills and acceptances payable by the banking segment. Current portion of long-term debts outstanding of ₱91 million as of December 31, 2018 was lower versus end-2017 due to payments made during the year. Other current liabilities decreased from ₱15.2 billion as of end-2017 to ₱8.6 billion in current period due to various settlements made during the year 2018. Liabilities of disposal group classified as held for sale pertains to the banking segment's PNB Gen liabilities.

The increase in the Noncurrent Liabilities was on account of the issuance of bonds by the banking segment which increased the Long-Term Debts Noncurrent portion by ₱17.1 billion to ₱18.6 billion as of end-2018, and higher Noncurrent Bills and Acceptances Payable by ₱2.3 billion of the banking segment. Deposit Liabilities (noncurrent) of the banking segment increased from ₱39.3 billion as of December 31, 2017 to ₱47.2 billion as of December 31, 2018. Accrued Retirement Benefits decreased by 25.8% or ₱0.6 billion. Other noncurrent liabilities increased by 24.3% to ₱5.9 billion as of December 31, 2018 from ₱4.7 billion due to various accruals and additional obligations incurred in 2018. Deferred income tax liabilities increased to ₱8.8 billion due to various tax temporary timing differences accrued in 2018.

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

2017

The Company's consolidated Total Assets as of December 31, 2017 amounted to ₱917.1 billion, an increase of 10.6% from ₱829.1 billion as of December 31, 2016. This was mainly on account of the increase in Current Assets by 2.9% or ₱11.8 billion and increase in Noncurrent Assets of ₱76.2 billion or 18.0%.

The increase in the consolidated Current Assets from ₱404.8 billion as of December 31, 2016 to ₱416.6 billion was mainly due to the increase in Current Loans and Receivables by ₱14.8 billion due to the bank's higher booking of loans in 2017. Inventories and Other Current Assets increased by 4.0% and 27.2%, respectively to ₱13.4 billion and ₱13.5 billion as of December 31, 2017, respectively. Due From Related Parties increased from ₱1.9 billion to ₱2.0 billion due to additional advances during the year. There was a 70.0% decrease in Current Available For Sale Investments due to the various disposals and reclassifications to noncurrent by the bank.

The 18.0% increase in Total Noncurrent Assets was mainly due to the movements in the Noncurrent Loans and Receivables, Financial Assets at FVTOCI, Financial Assets at Amortized Cost, Property, plant and equipment (PPE) and Other Noncurrent Assets. Noncurrent Loans and Receivables increased to ₱307.6 billion as of December 31, 2017, due to the bank's higher booking of loans for 2017. Financial Assets at FVTOCI and Financial Assets at Amortized Cost were higher by 17.5% and 10.9%, respectively, on account of the bank's additional investments and higher market values of its portfolios. PPE increased to ₱43.2 billion in the current period from ₱41.3 billion in December 31, 2016, on account of the various acquisitions for the year ended 2017. Other Noncurrent Assets increased by 26.1% to ₱4.7 billion in 2017.

Consolidated Total Liabilities increased by 11.0% to ₱721.8 billion as of end-2017 from ₱650.5 billion as of end-2016. This was on account of the increase in Total Current Liabilities by 15.1% from ₱578.1 billion in December 31, 2016 to ₱665.4 billion as of the end of the current period offset by the decrease in Noncurrent Liabilities of 22.1% from ₱72.4 billion to ₱56.4 billion.

Current portion of the banking segment's Deposit Liabilities amounted to ₱588.4 billion as of December 31, 2017, 14.1% higher than December 31, 2016. Current portion of Bills and Acceptances Payable increased by 46.1% mainly due to the reclassification of currently maturing bills and acceptances payable by the banking segment. Accounts Payable and Accrued Expenses amounted to ₱22.0 billion or 27.4% higher than ₱17.3 billion as of December 31, 2016 due to the various accruals of different segments in 2017. Income tax payable was higher by 294.9% versus the December 31, 2016 level. Financial liabilities at fair value through profit or loss was 47.5% higher than December 2016 level due to higher derivative liabilities during the year. Short-term debt was lower by 11.4% to ₱1.6 billion in the current period from ₱1.8 billion in December 31, 2016, due to the payment of the beverage segment's loan. Current portion of long-term debt decreased by 75.4% to ₱114.7 million due to the payments made by the property development segment during the year. Other current liabilities decreased by 12.7% from ₱17.4 billion to ₱15.2 billion in the current period.

The decrease in the Noncurrent Liabilities was on account of lower Deposit Liabilities (noncurrent) of the banking segment from ₱45.9 billion as of December 31, 2016 to ₱39.3 billion as of December 31, 2017. Also, Noncurrent Bills and Acceptances Payable of the bank was lower by ₱3.5 billion to ₱7.3 billion in 2017 from ₱10.8 billion as of end-2016. Long-term debt-net of current portion decreased by 71.1% due to the payment of the bank's subordinated debt in 2017. Accrued retirement benefits decreased by 43.4% due to the settlement and adjustments made during the year. Deferred Income Tax Liabilities increased by 6.9% due to accrual of temporary tax differences. Other Noncurrent Liabilities of the banking segment decreased by 12.8% or ₱693 million.

LTG's consolidated Total Equity grew 9.4% to ₱195.3 billion as of December 31, 2017, on account of the increase in Retained Earnings coming from the net earnings during the period and other comprehensive income.

KEY PERFORMANCE INDICATORS

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

1.) **Gross Profit Ratio**

Gross profit ratio in 2018 was 52.4% versus 53.4% in 2017.

2.) **Return on Equity**

Consolidated Net Income Attributable to Equity Holders of the Parent Company for 2018 amounted to ₱16.2 billion; higher by 49.5% from last year’s ₱10.8 billion. Ratio of net income to equity is 9.4% in 2018 and 7.3% in 2017.

3.) **Current Ratio**

Current Ratio for 2018 is 0.61:1 while last year’s was 0.62:1.

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

Debt-to-equity ratio for 2018 is 3.75:1 as compared to last year’s 3.70:1.

5.) **Earnings per share**

Earnings per share attributable to holders of the parent company for 2018 is ₱1.50 and ₱1.00 in 2017.

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

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

OTHER MATTERS

- (i) There are no other trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group’s increasing or decreasing liquidity in any material way. The Group is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. The Company does not have any liquidity problems.
- (ii) There are no events that will trigger direct or contingent financial obligation that is material to LTG, including any default or acceleration of an obligation.
- (iii) There are no known material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of LTG with unconsolidated entities or other persons created during the reporting period.

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

Distilled spirits

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

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

Absolute Distillers, Inc. plans to invest in Sugar Mill for bioethanol production.

Beverage

To capitalize on the growing bottled water market, ABI put up a new bottled water facility in Pampanga that is set to operate in the second quarter of 2019.

Also, in 2018, ABI made several investments in its sweetened beverage business to improve efficiencies in its production processes. Investments in returnable containers were also made to replace bottles and crates used in production and to support the growth of the local production of Vitamilk and Summit Water in returnable glass bottles.

International Bottled Water Association Membership

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

ISO 9001:2015 Quality Management System Certification

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

- (v) The company has no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenue or income from continuing operations.
- (vi) There are no significant elements of income or loss that did not arise from the Company's continuing operations.
- (vii) The causes for any material change from period to period which shall include vertical and horizontal analyses of any material item;

Results of our Horizontal (H) and Vertical (V) analyses showed the following material changes as of and for the years ended December 31, 2018 and 2017:

1. Financial assets at fair value through profit or loss – H, 65%
2. Financial assets at fair value through other comprehensive income (FVTOCI) - current – H, 264%
3. Loans and receivables-current – H, 20%
4. Other current assets – H, (27%)
5. Assets of disposal group classified as held for sale – H, 100%
6. Loans and receivables-noncurrent – H, 13%
7. Financial assets at FVTOCI - noncurrent – H, (32%)
8. Financial assets at amortized cost - noncurrent – H, 273%
9. Investment in associates and joint ventures – H, 18%
10. Property, plant and equipment – at appraised – H, 67%
11. Property, plant and equipment – at cost – H, 12%
12. Deferred income tax assets – H, 30%
13. Other noncurrent assets- H, 15%
14. Deposit liabilities – current – H, 14%
15. Financial liabilities at fair value through profit or loss – current – H, 37%
16. Bills and acceptances payable - current – H, 65%
17. Short-term debts – H, 32%
18. Income tax payable – H, (9%)
19. Long-term debts-current – H, (21%)
20. Due to related parties-current – H, 41%
21. Other current liabilities – H, (43%)
22. Liabilities of disposal group classified as held for sale – H, 100%
23. Deposit liabilities – noncurrent – H, 20%
24. Bills and acceptances payable - noncurrent – H, 31%
25. Long-term debt – net of current portion – H, 1,158%
26. Accrued retirement benefits – H, (26%)
27. Deferred income tax liabilities – H, 523%
28. Other noncurrent liabilities- H, 24%
29. Reserves of disposal group classified as held for sale – H, 100%
30. Other comprehensive income – H, 258%
31. Retained earnings- H, 17%
32. Noncontrolling interests – H, 24%
33. Banking revenue – H, 26%
34. Beverage revenue – H, 9%
35. Distilled spirits revenue – H, 8%
36. Property development revenue – H, 43%
37. Cost of sales – H, 21%
38. Equity in net earnings of associates – H, 101%
39. General and administrative expenses – H, 16%
40. Finance income – H, 32%
41. Foreign exchange gains – H, (36%)
42. Others-net – H, 47%
43. Provision for income tax – deferred – H, 33%
44. Provision for income tax – current – H, (86%)
45. Net income from continuing operations – H, 43%
46. Net income from discontinued operations – H, (413%)
47. Net income- H, 41%

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

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

A. Information on Independent Accountant and other Related Matters

(1) External Audit Fees and Services

a.) Audit and Audit-Related Fees

1. The Audit of the Group's annual financial statements and other services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for 2018 and 2017.

	2018	2017
LT Group, Inc.	₱1,500,000	₱1,500,000
Distilled Spirits	3,255,000	3,225,000
Beverage	5,945,000	5,945,000
Tobacco	600,000	600,000
Banking	19,773,000	17,450,000
Property Development	2,300,000	2,400,000
Total	₱33,373,000	₱31,120,000

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

none

b.) Tax Fees

none

c.) All Other Fees

Yr. 2018

LT Group, Inc. and its subsidiaries incurred ₱6,190,000 during the year 2018 for its quarterly review of financial statements.

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

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

Item 7. Financial Statements

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

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

There are no changes in and disagreements with accountants on any accounting and financial disclosures during the past two years ended December 31, 2018 or during any subsequent interim period.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

1. Directors

Name	Age	Citizenship	Business Experience/Other Directorship within the Last five (5) years	Position/Term of Office/Period Served
Lucio C. Tan	84	Filipino	Chairman of Philippine Airlines, Inc., Asia Brewery Inc., Eton Properties Philippines, Inc., MacroAsia Corp. , Fortune Tobacco Corp., PMFTC Inc., Grandspan Development Corp., Himmel Industries Inc., Lucky Travel Corp., PAL Holdings, Inc. , Air Philippines Corporation, Tanduay Distillers, Inc., The Charter House, Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Foremost Farms, Inc. and Basic Holdings Corp.; Director of Philippine National Bank	Chairman/ 1 Year/ July 2, 1999 to present
Carmen K. Tan	77	Filipino	Director of Asia Brewery, Inc., The Charter House, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., PAL Holdings, Inc. , Air Philippines Corporation, Fortune Tobacco Corp., Himmel Industries, Inc., Lucky Travel Corp., Progressive Farms, Inc., MacroAsia Corp. and PMFTC Inc.	Director/ 1 Year/ May 5, 2010 to present
Harry C. Tan	72	Filipino	Director of Eton Properties Philippines, Inc., PAN Asia Securities, Inc., Lucky Travel Corp., The Charter House, Inc., Fortune Tobacco Corp., Century Park Hotel, Landcom Realty Corp., Asia Brewery Inc., AlliedBankers Insurance Corp., Absolut Distillers, Inc., Basic Holdings Corp., Foremost Farms, Inc., Himmel Industries Inc., PMFTC Inc., Progressive Farms, Inc., Grandspan Development Corp. and Tanduay Distillers, Inc.	Director/ 1 Year/ May 28, 2008 to present
Michael G. Tan	52	Filipino	Director/Chief Operating Officer of Asia Brewery, Inc., Director/Treasurer of PAL Holdings, Inc. , Air Philippines Corporation and Zuma Holdings and Management Corporation, Director of Absolut Distillers, Inc., AlliedBankers Insurance Corp., Allied Commercial Bank, Bulawan Mining Corp., Eton City, Inc., Eton Properties Philippines,	President/ 1 Year/ 05 May 5, 2010 to present (Director since February 21, 2003)

			Inc., Lucky Travel Corp., MacroAsia Corporation , Century Park Hotel, Paramount Land Equities, Inc., Pan-Asia Securities Corp., Philippine Airlines, Inc. Philippine Airlines Foundation, Inc., Philippine National Bank , PMFTC Inc., PNB Savings Bank, Tanduay Distillers, Inc., Tanduay Brands International, Inc., and Victorias Milling Co., Inc. ; President of Mabuhay Digital Philippines, Inc. and Mabuhay Digital Technologies, Inc.	
Lucio K. Tan, Jr.	52	Filipino	Director/President of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc.; Director/EVP of Fortune Tobacco Corp.; Director of AlliedBankers Insurance Corp., Philippine Airlines, Inc., Philippine National Bank , PAL Holdings, Inc. , MacroAsia Corp. , PMFTC Inc., Lucky Travel Corp., Air Philippines Corp., Absolut Distillers, Inc., Asia Brewery, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Progressive Farms, Inc., The Charter House, Inc., Grandspan Development Corporation and Shareholdings, Inc.; Director of Mabuhay Digital Philippines, Inc. and Mabuhay Digital Technologies, Inc.	Director / 1 Year/ February 21, 2003 to present
Juanita Tan Lee	76	Filipino	Director of Eton Properties Philippines, Inc. Tanduay Distillers, Inc., and Asia Brewery, Inc., Director/Corporate Secretary of Fortune Tobacco Corp., Corporate Secretary of Absolut Distillers, Inc., The Charter House, Inc., Foremost Farms, Inc., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., PMFTC Inc., Progressive Farms, Inc., and Assistant Corporate Secretary of Basic Holdings Corp. She is likewise a member of the Board of Trustees of the University of the East; Treasurer of Mabuhay Digital Philippines, Inc. and Mabuhay Digital Technologies, Inc.	Director/ 1 Year/ May 2, 2012 to present Assistant Corporate Secretary/ 1 Year/ September 13, 2000 to September 17, 2012 Treasurer/ 1 year/ April 8, 2014 to present

Peter Y. Ong	71	Filipino	Director and the Treasurer of Merit Holdings & Equities Corporation, Director of Fortune Tobacco Corporation, AlliedBankers Insurance Corporation, Allied Leasing and Finance Corporation and Solar Holdings Corporation. He is also a consultant of Philippine Airlines, Inc., Former President of Air Philippines Corporation, Former Senior Vice President for Production of Fortune Tobacco Corporation and Former Director of Allied Savings Bank.	Director / 1 Year/ August 18, 2014 to present
Wilfrido E. Sanchez	81	Filipino	Tax Counsel of Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Independent Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, Inc. , JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation; PETNET, Inc., PETPLANS, Inc., Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc., and Universal Rubina Corp.; Independent Director of Eton Properties Philippines, Inc. and Rizal Commercial Banking Corporation ; Director of of Mabuhay Digital Philippines, Inc. and Mabuhay Digital Technologies, Inc.	Independent Director/ 1 year/July 31, 2012 to present
Florencia G. Tarriela	71	Filipino	Chairman of Philippine National Bank , PNB Global Remittance & Financial Co., HK Ltd.; Trustee/Advisor/Director of Foundation for Filipino Entrepreneurship, Inc., Summer Institute of Linguistics, and Tulay sa Pagunlad, Inc.; Columnist of Manila Bulletin	Independent Director/ 1 year/August 09, 2012 to present

Robin C. Sy	83	Filipino	President of Asian Shipping Corporation, Independent Non-executive Director of Dynamic Holdings Limited, Honorary President of Federation of Filipino-Chinese Chamber of Commerce and Industry, Inc., Former Director of Air Philippines Corporation and Zuma Holdings and Management Corporation.	Independent Director / 1 Year/August 18, 2014 to present
Johnip G. Cua	62	Filipino	Former President of Procter & Gamble Philippines Inc., current Chairman of the Board of the P&Gers Fund Inc. and Xavier School Inc., Chairman & President of Taibrews Corporation, Independent Director of BDO Private Bank, PhilPlans First Inc., STI Education Systems Holdings Inc., MacroAsia Corp., MacroAsia Catering Services Inc., and MacroAsia Airport Services Corp. Member of the Board of Directors of PAL Holdings, Inc., Philippine Airlines, Inc., Interbake Marketing Corp., Teambake Marketing Corp., Bakerson Corp., Lartizan Corp., Alpha Alleanza Manufacturing Inc., and Allied Botanical Corp., and a member of the Board of Trustees of Xavier School Educational & Trust Fund. Former Chairman of the Board of Trustees of the Advertising Foundation of the Philippines; of Mabuhay Digital Philippines, Inc. and Mabuhay Digital Technologies, Inc.	Independent Director / 1 Year/ 08 May 2018 to present

2. Executive Officers

Name/Position	Age	Citizenship	Current Affiliations and Business Experiences in the last 5 years	Term of Office/ Period Served
Lucio C. Tan/ Chairman	84	Filipino	See above	1 Year/July 2, 1999 to present
Michael G. Tan/ President	52	Filipino	See above	1 Year/May 5, 2010 to present
Juanita Tan Lee/ Treasurer	76	Filipino	See above	1 Year/April 8, 2014 to present
Ma. Cecilia L. Pesayco/ Corporate Secretary	66	Filipino	Corporate Secretary of Asia Brewery, Inc., Tanduay Distillers, Inc., PAL Holdings, Inc. , Air Philippines Corporation, PNB Savings Bank, Trustmark Holdings Corporation, Zuma Holdings and Management	1 Year/March 31, 1998 to present

			Corporation. She is likewise the Chief Counsel of the Tan Yan Kee Foundation and; Former Corporate Secretary of Allied Banking Corporation and Eton Properties Philippines, Inc.; Corporate Secretary of Mabuhay Digital Philippines, Inc. and Mabuhay Digital Technologies, Inc.	
Jose Gabriel D. Olives/ Chief Financial Officer	72	Filipino	Former Senior Vice President – Finance & Chief Financial Officer of Philippine Airlines, Inc., and Former Chief Finance Officer of Asia Brewery, Inc.	1 Year/August 09, 2012 to present
Nestor C. Mendones/ Deputy Chief Financial Officer	64	Filipino	Senior Vice President-Finance and Chief Finance Officer of Tanduay Distillers, Inc.	1 Year/August 09, 2012 to present
Marivic T. Moya/ Assistant Corporate Secretary	58	Filipino	Corporate Secretary of MacroAsia Catering Services Inc., MacroAsia Airport Services Corp., and Watergy Business Solutions Inc., Director and Coporate Secretary of MacroAsia Properties Development Corp., MacroAsia Air Taxi Services, Inc., and MacroAsia Mining Corp.(2000-Present), Corporate Secretary of Philippine Airlines, Inc., Cavite Business Resources, Inc.	1 Year/June 09, 2014 to present

Independent Directors and their qualifications:

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

Term of office – 1 year

Period served – 1 year

Educational attainment:

Bachelor of Science in Chemical Engineer, University of the Philippines

Positions held in the last 5 years:

- P&Gers Fund Inc. – Chairman
- Xavier School Inc.. – Chairman
- Taibrews Corporation - Chairman
- BDO Private Bank – Independent Director
- PhilPlans First Inc. – Independent Director
- STI Education Systems Holdings Inc. – Independent Director
- MacroAsia Corp. – Independent Director
- MacroAsia Catering Services Inc. – Independent Director
- MacroAsia Airport Services Corp. – Independent Director
- Interbake Marketing Corp. – Director
- Teambake Marketing Corp. – Director
- Bakerson Corp. – Director

- Lartizan Corp. – Director
- Alpha Alleanza Manufacturing Inc. – Director
- Allied Botanical Corp. – Director
- PAL Holdings, Inc. – Independent Director
- Philippine Airlines, Inc. – Independent Director
- Xavier School Educational & Trust Fund - member of the Board of Trustees
- Advertising Foundation of the Philippines - Chairman of the Board of Trustees
- Mabuhay Digital Philippines, Inc. – Director
- Mabuhay Digital Technologies, Inc. – Director

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

Term of office – 1 year

Period served – 6 years

Educational attainment:

Bachelor of Arts, Ateneo de Manila University

Bachelor of Laws, Ateneo de Manila University

Master of Laws, Yale Law School

Positions held in the last 5 years:

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

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

Term of office – 1 year

Period served – 6 years

Educational Attainment:

BSBA major in Economics, University of the Philippines

Master of Arts in Economics, University of California, Los Angeles (UCLA), USA

(topped the Master's Comprehensive Exams and completed the M.A. Degree with an "A" average in three Quarters)

Positions held in the last 5 years:

- Philippine National Bank – Chairman
- PNB Global Remittance & Financial Co., HK Ltd. – Chairman

- Manila Bulletin - “Business Options” – Columnist
- Foundation for Filipino Entrepreneurship, Inc. (FFEI) – Trustee
- Tulay sa Pagunlad, Inc. – Director
- Bank Administration Institute of the Philippines – Life Sustaining Member
- Financial Executive Institute – Life Sustaining Member
- Summer Institute of Linguistics – Adviser

4. Robin C. Sy, elected as Independent Director since June 9, 2014.

Term of office – 1 year

Period served – 4 year

Positions held in the last 5 years:

- Asian Shipping Corporation – President
- Dynamic Holdings Limited – Independent Director
- Federation of Fil-Chinese Chamber of Commerce and Industry – Honorary President

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

3. Significant Employees

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

4. Family Relationship

Dr. Lucio C. Tan, married to Ms. Carmen K. Tan, is the brother of Mr. Harry C. Tan and the father of Mr. Lucio K. Tan, Jr. and Mr. Michael G. Tan.

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

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

Item 10. Executive Compensation

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

Summary Compensation Table

Annual Compensation

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

* Others – includes per diem of directors

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

1. Mr. Lucio C. Tan is the Chairman of the Board of Directors and Chief Executive Officer (CEO).
 2. Mr. Michael Tan is the President.
 3. Atty. Ma. Cecilia Pesayco is the Corporate Secretary.
 4. Ms. Juanita Tan Lee is the Treasurer.
- a) Standard Arrangements – The Directors of LTG receive a Director's allowance of P30,000.00 a month and a per diem of P25,000.00 for every board meeting and P15,000.00 for every committee meeting attended. Other than the stated allowance and the per diem of the Directors, there are no other standard arrangements to which the Directors of LTG are compensated, or are to be compensated, directly or indirectly, for any services provided as a Director, including any additional amounts payable for Committee participation or special assignments, for the last completed fiscal year and the ensuing year.
- b) Other Arrangements – None
- c) Employment contract or compensatory plan or arrangement – None

Warrants and Options Outstanding: Repricing

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

Item 11. Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2018.

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

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

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

2. Security Ownership of Management

Title of Class	Name of Beneficial owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Beneficial Ownership
Common	Lucio C. Tan	2,200 R (direct)	Filipino	Nil
Common	Harry C. Tan	3,300 R (direct)	Filipino	Nil
Common	Carmen K. Tan	2,200 R (direct)	Filipino	Nil
Common	Lucio K. Tan Jr.	1,100 R (direct)	Filipino	Nil
Common	Michael G. Tan	1,100 R (direct)	Filipino	Nil
Common	Juanita Tan Lee	1,100 R (direct)	Filipino	Nil
Common	Wilfrido E. Sanchez	1,000 R (direct)	Filipino	Nil
Common	Florencia G. Tarriela	1,000 R (direct)	Filipino	Nil
Common	Johnip G. Cua	1,000 R (direct)	Filipino	Nil
Common	Peter Y. Ong	1,100 R (direct)	Filipino	Nil
Common	Robin C. Sy	1,000 R (direct)	Filipino	Nil

Common	Ma. Cecilia L. Pesayco	2,200 R (direct)	Filipino	Nil
N/A	Jose Gabriel D. Olives	None N/A	Filipino	N/A
N/A	Nestor C. Mendones	None N/A	Filipino	N/A
N/A	Marivic T. Moya	None N/A	Filipino	N/A

Security ownership of all directors and officers as a group unnamed is 18,300 representing 0% of LTG's total outstanding capital stock.

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

3. Voting Trust Holders of 5% or more

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

4. Changes in Control

None

Item 12. Certain Relationships and Related Transactions

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

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

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

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

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

This will be filed separately in May 2019.

PART V - EXHIBITS AND SCHEDULES

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

- a. Exhibits - see accompanying Index to Exhibits (page 79)

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

- b. Reports on SEC Form 17-C

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

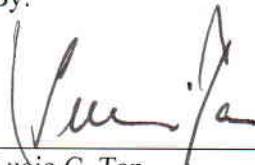
LIST OF ITEMS REPORTED UNDER SEC FORM 17-C (from July 2018 to December 2018)

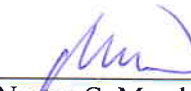
Date of Report	Subject Matter Disclosed
July 19, 2018	Amendment of Articles of Incorporation: <i>“Approval of the Amendment of Article 6 to reduce the number of directors from thirteen (13) to eleven (11)”</i>
August 13, 2018	Press Release: <i>“LTG’s First Half Net Income at Php8.96Billion”</i>
September 13, 2018	Press Release: <i>“NAIA Consortium”</i>
September 24, 2018	Acquisition of Shares of Another Corporation: <i>Subscription of shares in Asia’s Emerging Dragon Corporation</i>
November 12, 2018	Press Release: <i>“LTG’s Income for First Nine Months of 2018 at Php12.57Billion”</i>

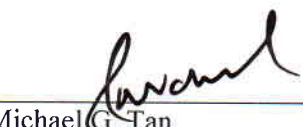
SIGNATURES

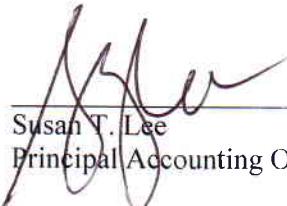
Pursuant to the requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized in the City of Makati on MAR 12 2019.

By:

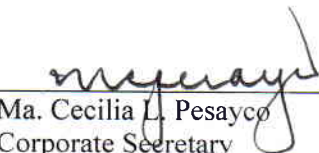

 Lucio C. Tan
 Chairman and Chief Executive Officer


 Nestor C. Mendones
 Deputy Chief Financial Officer


 Michael G. Tan
 President and Chief Operating Officer


 Susan T. Lee
 Principal Accounting Officer

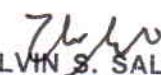

 Jose Gabriel D. Olives
 Chief Financial Officer


 Ma. Cecilia L. Pesayco
 Corporate Secretary

SUBSCRIBED AND SWORN to before me this MAR 12 2019 affiants exhibiting to me their Passport numbers, as follows:

NAMES	PASSPORT NO.	DATE OF ISSUE	PLACE OF ISSUE
Lucio C. Tan	P3645577A	July 11, 2017	Manila, Philippines
Michael G. Tan	P3415001A	June 16, 2017	Manila, Philippines
Jose Gabriel D. Olives	P7769394A	July 02, 2018	Manila, Philippines
Nestor C. Mendones	EC3602105	March 06, 2015	NCR East, Philippines
Ma. Cecilia L. Pesayco	EC8362602	July 20, 2016	Manila, Philippines
Susan T. Lee	EC4659506	July 16, 2015	Manila, Philippines

Doc. No. 83
 Page No. 18
 Book No. 2
 Series of 2019


ELVIN S. SALINDO
 Notary Public until 31 December 2020
 19th/F BDO Plaza, 6737 Paseo de Roxas, Makati City
 PTR No. 7333081, Makati City, 03 January 2019
 IBP No. 058645, Makati 03 January 2019
 Roll No. 65645, Commission No. M-138
 MCLE Compliance No. VI-0093192, 13 Sept 2017

LT GROUP, INC.
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SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

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



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The management of **LT Group, Inc.** is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for each of the three years ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

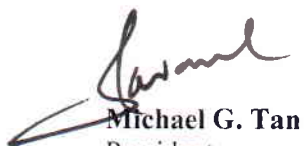
The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders or members.

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

Signed under oath by the following:



Lucio C. Tan
Chairman and Chief Executive Officer



Michael G. Tan
President



Jose Gabriel D. Olives
Chief Financial Officer

Signed this 12th day of March 2019

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI)

BEFORE ME, personally appeared the following persons on March 12, 2019

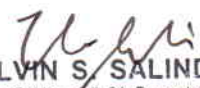
Name	Passport No.	Date Issue	Place of Issue
Lucio C. Tan	P3645577A	7/11/2017	Manila, Philippines
Michael G. Tan	P3415001A	6/16/2017	Manila, Philippines
Jose Gabriel D. Olives	P7769394A	7/2/2018	Manila, Philippines

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

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, this day of MAR 12 2019 2019 at Makati City Philippines

Doc. No. 84
Page No. 18
Book No. 2
Series of 2019


ELVIN S. SALINDO
Notary Public until 31 December 2020
19th/F BDO Plaza, 8737 Paseo de Roxas, Makati City
PTR No. 7333081, Makati City, 03 January 2019
IBP No. 058645, Makati 03 January 2019
Roll No. 65645, Commission No. M-138
MCLE Compliance No. VI-0003192, 13 Sept 2017

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

P	W	-	0	0	0	0	0	3	4	3
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COMPANY NAME

[illegible]

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

[illegible]

Form Type

A	A	F	S
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Department requiring the report

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

Secondary License Type, If Applicable

N	/	A	
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COMPANY INFORMATION

Company's Email Address

info@ltg.com.ph

Company's Telephone Number

(02) 808-1266

Mobile Number

	N/A
--	-----

No. of Stockholders

370

Annual Meeting (Month / Day)

May/7

Fiscal Year (Month / Day)

December/31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Jose Gabriel D. Olives

Email Address

**josegabriel.olives@
ltg.com.ph**

Telephone Number/s

808-1266

Mobile Number

N/A

CONTACT PERSON'S ADDRESS

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
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 balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Adoption of PFRS 9, Financial Instruments

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

1. Classification and measurement of financial assets

As at January 1, 2018 (the transition date), the Group classified its financial assets based on its business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted in transition adjustments that increased retained earnings and other comprehensive income by ₱573.4 million. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria. The Group's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the consolidated financial statements.

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

Audit Response

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

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

2. Expected credit losses (ECL)

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

The application of the ECL model increased the allowance for credit losses and other comprehensive income as of January 1, 2018 by ₱2.47 billion and ₱0.06 million, respectively. Provision for credit losses of the Group in 2018 using the ECL model amounted to ₱1.69 billion.

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

Audit Response

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

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

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

We recalculated impairment provisions on a sample basis. We checked the transition adjustments and reviewed the disclosures made in the consolidated financial statements. We involved our internal specialists in the performance of the above procedures.

Recognition of deferred income tax assets

As at December 31, 2018, the deferred tax assets of Philippine National Bank (PNB, a subsidiary), amounted to ₱6.63 billion. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and subject to significant judgment and estimation, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of PNB.

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

Audit response

We involved our internal specialist in interpreting the tax regulations, testing the deductible temporary differences identified by PNB and the applicable tax rate. We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of PNB. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Valuation of net retirement benefit liability

PNB has a defined benefit retirement plan covering all regular employees. The valuation of PNB's net retirement benefit liability amounting to ₱1.22 billion as of December 31, 2018 required the significant involvement of a professionally qualified actuary whose calculations depend on certain assumptions, such as prospective salary increase and employee turnover rates, as well as discount rate, which have a material impact on the valuation results.

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

Audit response

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

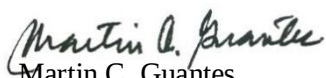
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-4 (Group A),

August 23, 2018, valid until August 22, 2021

Tax Identification No. 152-884-272

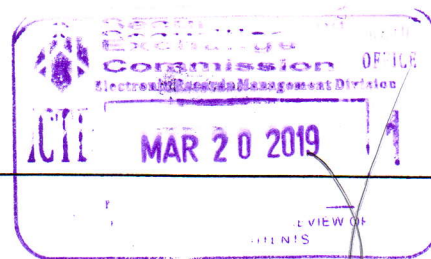
BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332557, January 3, 2019, Makati City

March 12, 2019

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



	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	₱176,496,004	₱174,024,418
Financial assets at fair value through profit or loss (FVTPL) [Notes 6 and 21]	10,783,021	6,518,419
Financial assets at fair value through other comprehensive income (FVTOCI) [Notes 7 and 17]	9,256,885	—
Available-for-sale (AFS) investments [Notes 7 and 17]	—	2,544,589
Loans and receivables (Notes 8 and 17)	245,934,405	204,622,577
Inventories (Note 9)	13,108,204	13,365,089
Due from related parties (Note 22)	2,028,632	2,028,625
Other current assets (Note 10)	9,105,700	12,471,592
	466,712,851	415,575,309
Assets of disposal group classified as held for sale (Note 37)	8,238,623	—
Total Current Assets	474,951,474	415,575,309
Noncurrent Assets		
Loans and receivables - net of current portion (Notes 8 and 17)	347,753,938	307,622,788
Financial assets at FVTOCI (Notes 7 and 17)	48,094,583	—
AFS investments (Notes 7 and 17)	—	70,664,823
Financial assets at amortized cost (Notes 7 and 17)	99,772,711	—
Held-to-maturity investments (Notes 7 and 17)	—	26,732,182
Investments in associates and joint ventures (Note 11)	20,314,141	17,230,925
Property, plant and equipment (Note 12):		
At appraised values	60,317,761	36,214,947
At cost	7,802,933	6,990,286
Investment properties (Note 13)	30,318,901	28,890,793
Deferred income tax assets - net (Note 29)	1,899,044	1,460,889
Other noncurrent assets (Note 14)	6,551,322	5,712,747
Total Noncurrent Assets	622,825,334	501,520,380
TOTAL ASSETS	₱1,097,776,808	₱917,095,689
LIABILITIES AND EQUITY		
Current Liabilities		
Deposit liabilities (Note 15)	₱672,342,296	₱588,394,301
Financial liabilities at FVTPL (Notes 16 and 21)	470,648	343,522
Bills and acceptances payable (Note 17)	60,549,245	36,634,337
Accounts payable and accrued expenses (Note 18)	22,516,482	22,023,972
Income tax payable	1,012,898	1,113,799
Short-term debts (Note 19)	2,050,000	1,550,000
Current portion of long-term debts (Note 19)	90,829	114,681
Due to related parties (Note 22)	80,199	56,842
Other current liabilities (Notes 20 and 38)	8,616,177	15,166,369
	767,728,774	665,397,823
Liabilities of disposal group classified as held for sale (Note 37)	7,237,811	—
Total Current Liabilities (Carried Forward)	774,966,585	665,397,823



	December 31	
	2018	2017
Total Current Liabilities (Brought Forward)	₱774,966,585	₱665,397,823
Noncurrent Liabilities		
Deposit liabilities - net of current portion (Note 15)	47,219,123	39,286,226
Bills and acceptances payable (Note 17)	9,533,590	7,282,350
Long-term debts - net of current portion (Note 19)	18,555,324	1,475,466
Net retirement benefits liability (Note 23)	1,636,201	2,205,229
Deferred income tax liabilities - net (Note 29)	8,811,004	1,414,348
Other noncurrent liabilities (Note 20)	5,864,593	4,718,832
Total Noncurrent Liabilities	91,619,835	56,382,451
Total Liabilities	866,586,420	721,780,274
Equity		
Attributable to equity holders of the Company (Notes 1, 7, 12, 23, 24, 30 and 36):		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Preferred shares of subsidiaries issued to Parent Company	18,060,000	18,060,000
Other equity reserves	804,095	804,095
Reserves of disposal group classified as held for sale	(21,893)	–
Other comprehensive income, net of deferred income tax effect	15,410,482	4,299,674
Retained earnings	91,998,914	78,435,633
Shares of stock of the Company held by subsidiaries	(12,519)	(12,519)
	172,966,699	148,314,503
Non-controlling interests (Notes 1, 7, 12 and 30)	58,223,689	47,000,912
Total Equity	231,190,388	195,315,415
TOTAL LIABILITIES AND EQUITY	₱1,097,776,808	₱917,095,689

See accompanying Notes to Consolidated Financial Statements.

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

Years Ended December 31			
	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
REVENUE (Note 24)			
Banking	₱40,172,558	₱31,840,282	₱29,142,262
Distilled spirits	18,062,573	16,704,933	14,904,343
Beverage	14,125,559	12,948,796	10,932,326
Property development	3,198,735	2,233,063	2,851,514
	75,559,425	63,727,074	57,830,445
COST OF GOODS SOLD AND SERVICES (Note 24)	35,965,402	29,679,810	26,126,881
GROSS INCOME	39,594,023	34,047,264	31,703,564
EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 11)	7,966,691	3,963,505	2,785,845
	47,560,714	38,010,769	34,489,409
OPERATING EXPENSES			
Selling expenses (Note 25)	2,700,387	2,692,425	2,351,522
General and administrative expenses (Note 26)	28,302,277	24,380,465	25,037,148
	31,002,664	27,072,890	27,388,670
OPERATING INCOME	16,558,050	10,937,879	7,100,739
OTHER INCOME (CHARGES)			
Foreign exchange gains - net	1,090,891	1,703,858	1,533,701
Finance income (Note 27)	206,641	157,100	106,426
Finance costs (Note 27)	(145,457)	(141,937)	(202,490)
Others - net (Note 28)	7,837,908	5,343,160	4,323,812
	8,989,983	7,062,181	5,761,449
INCOME BEFORE INCOME TAX	25,548,033	18,000,060	12,862,188
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)			
Current	4,785,686	3,605,838	2,523,314
Deferred	(15,886)	(116,061)	(356,545)
	4,769,800	3,489,777	2,166,769
NET INCOME FROM CONTINUING OPERATIONS	20,778,233	14,510,283	10,695,419
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 37)	(219,972)	70,373	1,393,737
NET INCOME	₱20,558,261	₱14,580,656	₱12,089,156

(Forward)

Years Ended December 31			
	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Company	₱16,194,778	₱10,830,773	₱9,390,407
Non-controlling interests	4,363,483	3,749,883	2,698,749
	₱20,558,261	₱14,580,656	₱12,089,156
Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company (Note 31)	₱1.50	₱1.00	₱0.87
Basic/Diluted Earnings Per Share			
Attributable to Equity Holders of the Company from Continuing Operations (Note 31)	₱1.48	₱1.00	₱0.86

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Amounts in Thousands)

Attributable to Equity Holders of the Company (Notes 1, 7, 12, 23, 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 AFS Investments (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Revaluation Increment on Property, Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries		Non-controlling Interests (Notes 2, 7, 12 and 30)	Total	
BALANCES AT DECEMBER 31, 2015																	
	P10,821,389	P35,906,231	P18,060,000	P804,095	P335,000	P523,358	(P1,447,979)	(P1,376,810)	P4,920,375	P470,290	P27,338	P3,116,572	P59,855,195	(P22,464)	P128,876,018	P40,882,077	P169,758,095
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	9,390,407	–	9,390,407	2,698,749	12,089,156	
Other comprehensive income (loss)	–	–	–	–	–	170,965	(523,918)	(204,377)	273,509	–	63,642	(220,179)	–	(220,179)	(258,670)	(478,849)	
Total comprehensive income (loss) for the year	–	–	–	–	–	170,965	(523,918)	(204,377)	273,509	–	63,642	(220,179)	9,390,407	–	9,170,228	2,440,079	11,610,307
Sale of disposal group	–	–	–	–	(335,000)	–	–	–	–	–	–	–	–	9,945	(325,055)	(271,814)	(596,869)
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(1,623,206)	–	(1,623,206)	(543,751)	(2,166,957)	
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(720,604)	(297,783)	–	(1,018,387)	1,018,387	–	–	–	–
BALANCES AT DECEMBER 31, 2016																	
	10,821,389	35,906,231	18,060,000	804,095	–	694,323	(1,971,897)	(1,581,187)	4,473,280	172,507	90,980	1,878,006	68,640,783	(12,519)	136,097,985	42,506,591	178,604,576
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	10,830,773	–	10,830,773	3,749,883	14,580,656	
Other comprehensive income	–	–	–	–	–	289,555	2,343,380	646,592	–	–	54,068	3,333,595	–	–	3,333,595	744,438	4,078,033
Total comprehensive income for the year	–	–	–	–	–	289,555	2,343,380	646,592	–	–	54,068	3,333,595	10,830,773	–	14,164,368	4,494,321	18,658,689
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	(1,947,850)	–	(1,947,850)	–	(1,947,850)	
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(739,420)	(172,507)	–	(911,927)	911,927	–	–	–	–
BALANCES AT DECEMBER 31, 2017 (CARRIED FORWARD)																	
	P10,821,389	P35,906,231	P18,060,000	P804,095	P–	P983,878	P371,483	(P934,595)	P3,733,860	P–	P145,048	P4,299,674	P78,435,633	(P12,519)	P148,314,503	P47,000,912	P195,315,415

Attributable to Equity Holders of the Company (Notes 1, 7, 12, 24, 30 and 36)																	
Other Comprehensive Income (Loss)																	
Capital Stock	Capital in Excess of Par	Preferred Shares of Subsidiaries Issued to Parent Company	Other Equity Reserves	Reserves of Disposal Group Classified as Held for Sale	Cumulative Translation Adjustments	Net Changes in Financial Assets at FVTOCI/ AFS Investments (Note 7)	Remeasurement Gains (Losses) on Defined Benefit Plans (Note 23)	Revaluation Increment on Property, Plant and Equipment (Note 12)	Revaluation Increment on Property, Plant and Equipment Transferred to Associate (Notes 2, 11 and 12)	Remeasurement Gains on Defined Benefit Plans of an Associate (Note 11)	Total Other Comprehensive Income (Loss), Net of Deferred Income Tax Effect	Retained Earnings	Shares of Stock of the Company Held by Subsidiaries	Total	Non-controlling Interests (Notes 1, 7, 12 and 30)	Total	
BALANCES AT JANUARY 1, 2018, AS PREVIOUSLY REPORTED																	
	P10,821,389	P35,906,231	P18,060,000	P804,095	P–	P983,878	P371,483	(P934,595)	P3,733,860	P–	P145,048	P4,299,674	P78,435,633	(P12,519)	P148,314,503	P47,000,912	P195,315,415
Effect of adoption of PFRS 9, <i>Financial Instruments</i> (Note 2)	–	–	–	–	–	–	2,464,345	–	–	–	–	2,464,345	(1,178,864)	–	1,285,481	(712,042)	573,439
Effect of adoption of PFRS 15, <i>Revenue from Contracts with Customers</i> (Note 2)	–	–	–	–	–	–	–	–	–	–	–	–	(27,857)	–	(27,857)	(106)	(27,963)
BALANCES AT JANUARY 1, 2018, AS ADJUSTED																	
	10,821,389	35,906,231	18,060,000	804,095	–	983,878	2,835,828	(934,595)	3,733,860	–	145,048	6,764,019	77,228,912	(12,519)	149,572,127	46,288,764	195,860,891
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	16,194,778	–	16,194,778	4,363,483	20,558,261	
Other comprehensive income	–	–	–	–	–	168,781	(1,153,632)	596,597	9,695,308	–	57,018	9,364,072	–	–	9,364,072	7,653,454	17,017,526
Total comprehensive income for the year	–	–	–	–	–	168,781	(1,153,632)	596,597	9,695,308	–	57,018	9,364,072	16,194,778	–	25,558,850	12,016,937	37,575,787
Cash dividends declared	–	–	–	–	–	–	–	–	–	–	–	–	(2,164,278)	–	(2,164,278)	(19,357)	(2,183,635)
Reversal of disposal group classified as held for sale	–	–	–	–	(21,893)	–	15,601	6,292	–	–	–	21,893	–	–	–	(62,655)	(62,655)
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	–	–	–	–	–	–	–	–	(739,502)	–	–	(739,502)	739,502	–	–	–	–
BALANCES AT DECEMBER 31, 2018																	
	P10,821,389	P35,906,231	P18,060,000	P804,095	(P21,893)	P1,152,659	P1,697,797	(P331,706)	P12,689,666	P–	P202,066	P15,410,482	P91,998,914	(P12,519)	P172,966,699	P58,223,689	P231,190,388

See accompanying Notes to Consolidated Financial Statements.

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

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

(Forward)

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

See accompanying Notes to Consolidated Financial Statements.

LT GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Corporate Information

LT Group, Inc. ("LTG" or the "Company") is a stock corporation incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 27, 1937 to engage in the trading business. On November 17, 1947, the Company's shares of stock were listed in the Philippine Stock Exchange (PSE). The Company's corporate life is 50 years from the date of incorporation and was extended for another 50 years from and after May 27, 1987. On September 22, 1995, the Philippine SEC approved the change in the Company's primary purpose to that of a holding company. On July 30, 1999, the Company acquired Twin Ace Holdings Corp., now known as 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, 2018 and 2017, LTG is 74.36%-owned by its ultimate parent company, Tangent, which is also incorporated in the Philippines.

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

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 were authorized for issue by the Board of Directors (BOD) on March 12, 2019.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

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

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

Basis of Consolidation

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

	Percentage of Ownership						Country of Incorporation
	2018		2017		2016		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Distilled Spirits							
Tanduay Distillers, Inc. (TDI) and subsidiaries	100.0	-	100.0	-	100.0	—	Philippines
Absolut Distillers, Inc. (ADI)	-	96.0	-	96.0	-	96.0	Philippines
Asian Alcohol Corporation (AAC)	-	95.0	-	95.0	-	95.0	Philippines
Tanduay Brands International, Inc. (TBI) ⁽¹⁾	-	100.0	-	100.0	100.0	—	Philippines
Beverages							
Asia Brewery, Inc. (ABI) and subsidiaries	99.9	-	99.9	-	99.9	—	Philippines
Agua Vida Systems, Inc.	-	99.9	-	99.9	-	99.9	Philippines
Interbev Philippines, Inc.	-	99.9	-	99.9	-	99.9	Philippines
Waterich Resources Corp.	-	99.9	-	99.9	-	99.9	Philippines
Packageworld, Inc.	-	99.9	-	99.9	-	99.9	Philippines
AB Nutribev Corp.	-	99.9	-	99.9	-	99.9	Philippines
Asia Pacific Beverage Pte. Ltd. (APB Singapore)	-	99.9	-	99.9	-	99.9	Singapore
Asia Pacific Beverages Myanmar Company Limited (APB Myanmar) ⁽²⁾	-	90.0	-	90.0	-	90.0	Myanmar
Tobacco							
Shareholdings, Inc. (Shareholdings)	97.7	-	97.7	-	97.7	—	Philippines
Fortune Tobacco Corporation (FTC)	82.7	16.9	82.7	16.9	82.7	16.9	Philippines
Property Development							
Saturn Holdings, Inc.	100.0	-	100.0	-	100.0	—	Philippines
Paramount Landequities, Inc. (PLI) and subsidiaries	100.0	-	100.0	-	100.0	—	Philippines
Eton Properties Philippines, Inc. (Eton)	-	99.6	-	99.6	-	99.6	Philippines
Belton Communities, Inc. (BCI)	-	99.6	-	99.6	-	99.6	Philippines
Eton City, Inc. (ECI)	-	99.6	-	99.6	-	99.6	Philippines
FirstHomes, Inc. (FHI)	-	99.6	-	99.6	-	99.6	Philippines
Eton Properties Management Corporation (EPMC)	-	99.6	-	99.6	-	99.6	Philippines
Banking							
Bank Holding Companies (Note 22) ⁽³⁾	80-100	-	80-100	-	80-100	—	Various
Philippine National Bank (PNB) and Subsidiaries ⁽⁴⁾	-	56.5	-	56.5	-	56.5	Philippines
PNB Capital and Investment Corporation (PNB Capital)	-	56.5	-	56.5	-	56.5	Philippines
PNB Securities, Inc. (PNB Securities)	-	56.5	-	56.5	-	56.5	Philippines
PNB Forex, Inc.	-	56.5	-	56.5	-	56.5	Philippines
PNB Holdings Corporation (PNB Holdings)	-	56.5	-	56.5	-	56.5	Philippines
PNB General Insurers, Inc. (PNB Gen) ⁽⁵⁾	-	56.5	-	56.5	-	56.5	Philippines
PNB Corporation - Guam (PNB Guam)	-	56.5	-	56.5	-	56.5	United States of America (USA)
PNB International Investments Corporation (PNB IIC)	-	56.5	-	56.5	-	56.5	USA
PNB Remittance Centers, Inc. (PNB RCI)	-	56.5	-	56.5	-	56.5	USA
PNB RCI Holding Co. Ltd.	-	56.5	-	56.5	-	56.5	USA
PNB Remittance Co. (Canada)	-	56.5	-	56.5	-	56.5	Canada
PNB Europe PLC	-	56.5	-	56.5	-	56.5	United Kingdom
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	-	56.5	-	56.5	-	56.5	Hong Kong
PNB Italy SpA (PISpA)	-	-	-	-	-	—	Italy
Japan-PNB Leasing and Finance Corporation (Japan-PNB Leasing)	-	50.8	-	50.8	-	50.8	Philippines
Japan - PNB Equipment Rentals Corporation	-	50.8	-	50.8	-	50.8	Philippines
PNB Savings Bank	-	56.5	-	56.5	-	56.5	Philippines
Allied Bank Philippines (UK) Plc (ABUK)	-	56.5	-	56.5	-	56.5	United Kingdom
Allied Commercial Bank (ACB)	-	55.9	-	55.9	-	55.9	Republic of China

(Forward)

	Percentage of Ownership						Country of Incorporation
	2018		2017		2016		
	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) ⁽⁶⁾	-	44.0	-	24.8	-	45.2	Philippines
Allied Leasing and Finance Corporation (ALFC)	-	57.2	-	32.3	-	32.3	Philippines
Allied Banking Corporation (Hongkong) Limited (ABCHKL)	-	51.0	-	28.8	-	28.8	Hong Kong
ACR Nominees Limited	-	51.0	-	28.8	-	28.8	Hong Kong
Oceanic Holdings (BVI) Ltd. (OHBVI)	-	27.8	-	15.7	-	15.7	USA
Mabuhay Global Pte. Ltd. (MGPL) ⁽⁷⁾	100.0	-	-	-	-	-	Singapore
Mabuhay Digital Technologies, Inc. (MDPI)	-	100.0	-	-	-	-	Philippines
Mabuhay Digital Philippines, Inc. (MDTI)	-	100.0	-	-	-	-	Philippines
⁽¹⁾ Incorporated on May 6, 2003 to handle the marketing of TDI's products in the export market, TBI started its commercial operations in October 2017. On December 20, 2016, the Company sold its 100% ownership interest in TBI to TDI through an execution of a Deed of Sale of Shares of Stocks.							
⁽²⁾ On March 16, 2015, the Joint Venture Agreement was entered into by Asia Pacific Beverages Pte. Ltd., a subsidiary of ABI, and Aung Maw Thein (NICK), a citizen of the Union of Myanmar, to establish a private company limited by shares which will manufacture, market, sell and distribute non-alcoholic ready-to-drink or powdered mix beverage products in Myanmar. On March 26, 2016, APB Singapore and NICK incorporated APB Myanmar under the laws of Myanmar, owning 90% and 10% of the shares, respectively. Its commercial operations formally commenced on April 1, 2017.							
⁽³⁾ As of December 31, 2018 and 2017, the Bank Holding Companies consist of 27 entities with aggregate direct ownership interest of 59.83% in PNB, of which 20 companies are incorporated in the Philippines and seven (7) companies are incorporated in the British Virgin Islands (see Note 22).							
⁽⁴⁾ Represents the effective ownership interest of LTG through the collective ownership of the Bank Holding Companies in the merged PNB.							
⁽⁵⁾ On April 26, 2018, the PNB's BOD approved the exchange of all their holdings in PNB Gen for shares in Alliedbankers Insurance Corporation (ABIC) (see Note 37).							
⁽⁶⁾ Beginning December 18, 2015, assets and liabilities of APLII as of December 31, 2015 have been reclassified as disposal group classified as held for sale and the results of its operations for each of the years ended December 31, 2016 and 2015 have been reclassified as discontinued operations, following the approval of PNB's BOD disposing 51.00% of its ownership interest in APLII to Allianz SE (see Note 37).							
⁽⁷⁾ Incorporated on May 17, 2018, MGPL holds direct ownership interest in MDTI, incorporated on September 28, 2018 to offer shared services for technology infrastructure across the Group, and MDPI, incorporated on November 7, 2018 to engage business of electronic money, including payment and remittance services.							

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

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

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

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

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

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

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

Non-controlling interests

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

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

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

Business Combination and Goodwill

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PFRS 9 either in consolidated statement

of income or as a charge to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair values of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in consolidated statement of income.

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

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

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

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

Common control business combinations

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

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

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

- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as other equity reserve, i.e., either contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place.
- As a policy, comparatives are presented as if the entities had always been combined.

Changes in Accounting Policies

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

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*, address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight. These amendments are not applicable to the Group.
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*, address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018.

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

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*, clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*, clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

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

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

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

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

Classification and Measurement (C&M)

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

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

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

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

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

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

Impairment

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

Incurred loss versus Expected Credit Loss Methodology

The application of ECL significantly changed the bank segment's credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

For the other segments of the Group, the standard's simplified approach was applied where ECLs are calculated based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of PFRS 9 as at January 1, 2018 resulted in the increase in unrealized losses in OCI of ₱2.4 billion and reduction in retained earnings of ₱1.2 billion.

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

Financial assets	PAS 39 Measurement		Adjustments			PFRS 9 Measurement	
	Category	Amount	C&M	ECL	Total	Amount	Category
Cash in banks and cash equivalents	L&R	₱174,024.0	₱-	₱-	₱-	₱174,024.0	AC
Financial assets at FVTPL	FVPL	5,955.0	-	-	-	5,955.0	
Debt		2,317.0	(77.8)	-	(77.8)	2,239.2	FVTPL
		-	77.8	-	77.8	77.8	AC
Equity		3,638.0	(0.1)	-	(0.1)	3,637.9	FVTPL
		-	0.1	-	0.1	0.1	FVTOCI
Derivatives	FVPL	563.0	-	-	-	563.0	FVTOCI
AFS	AFS	73,209.0	(38.7)	(22.4)	(61.1)	73,147.9	
Debt		69,020.0	(69,020.0)	-	(69,020.0)	-	
		-	31,175.8	-	31,175.8	31,175.8	FVTOCI
		-	37,789.5	(22.4)	37,767.1	37,767.1	AC
Equity		4,189.0	(4,189.0)	-	(4,189.0)	-	
		-	531.6	-	531.6	531.6	FVTPL
		-	3,673.4	-	3,673.4	3,673.4	FVTOCI
HTM	HTM	99,773.0	3,149.5	(5.9)	3,143.6	102,916.6	
		99,773.0	(99,773.0)	-	(99,773.0)	-	
		-	82,996.7	(5.9)	82,990.8	82,990.8	AC
		-	19,925.8	-	19,925.8	19,925.8	FVTOCI
Loans and receivables	L&R	512,245.0	40.0	(2,439.1)	(2,399.1)	509,845.9	
		512,245.0	(10,445.3)	(2,439.1)	(12,884.4)	499,360.6	AC
		-	10,485.3	-	10,485.3	10,485.3	FVTOCI
Total		₱865,769.0	₱3,150.8	(₱2,467.4)	₱683.4	₱866,452.4	

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

- A portion of its previously held-to-maturity investments with carrying value of ₱19.9 billion were reclassified to financial assets at FVTOCI. Certain unquoted debt securities previously classified as 'loans and receivables' with carrying value of ₱10.5 billion were transferred to financial assets at FVTOCI. These debt securities are managed to collect contractual cash flows and sell to realize fair value changes prior to maturities of the securities.
- Certain equity investment securities previously classified as financial assets at FVTPL with carrying value of ₱0.1 billion were reclassified to financial assets at FVTOCI in compliance with the defined business models.
- Certain debt instruments previously classified as AFS investments with carrying value of ₱37.6 billion were reclassified to investment securities at amortized cost since the business model is to collect contractual cash flows up until their corresponding maturities.
- Certain equity investments of the Group previously classified as AFS investments with carrying value of ₱543.3 million were reclassified to financial assets at FVTPL in compliance with the defined business model.

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

Net changes in financial assets at FVTOCI/AFS investments		
Closing balance under PAS 39 (December 31, 2017)		₱371,483
<i>Classification and measurement:</i>		
Reversal of net unrealized losses (AFS investments to investment securities at amortized cost)	B/	(54,684)
Recognition of net unrealized losses on equity securities	C/	16,000
Reclassification of net unrealized losses to retained earnings (FVPL to FVTOCI)	D/	22,880
Reversal of allowance on AFS equity investments reclassified to financial assets at FVTOCI	E/	(653,200)
Reversal of unamortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	(114,651)
Recognition of net unrealized gains or reversal of unamortized net unrealized losses (HTM investment to FVTOCI)	G/	3,149,500
Recognition of net unrealized gain (Loans and receivables at amortized cost to FVTOCI)	I/	40,000
		2,405,845
<i>Expected credit losses:</i>		
Recognition of ECL on financial assets at FVTOCI	A/	58,500
		2,464,345
Opening balance under PFRS 9 (January 1, 2018)		₱2,835,828
Retained earnings		
Closing balance under PAS 39 (December 31, 2017)		₱78,435,633
<i>Classification and measurement:</i>		
Reversal of allowance on AFS equity investments reclassified to financial assets at FVTOCI	E/	637,200
Reclassification of net unrealized losses from retained earnings (FVTOCI to FVTPL)	D/	4,820
Reversal of amortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	114,651
		756,671
<i>Expected credit losses:</i>		
Recognition of ECL on financial assets at FVTOCI	A/	(58,500)
Recognition of ECL on financial assets at amortized cost	H/	(3,163,334)
Income tax effect		574,257
		(2,647,577)
		(1,890,906)*
Opening balance under PFRS 9 (January 1, 2018)		₱76,544,727

*Amount includes share of non-controlling interests

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

Measurement Category	Impairment Allowance under PAS 39	Transition adjustment	Impairment Allowance Under PFRS 9
Loans and receivables/Financial assets at amortized cost			
Finance receivables*	₱18,056.3	(₱1,893.0)	₱16,163.3
Trade receivables	49.2	359.5	408.7
Other receivables	11.2	261.1	272.3
Financial assets at FVTOCI**	–	724.5	724.5
Investment securities at amortized cost	–	3,711.5	3,711.5
AFS investments - equity securities	696.2	(696.2)	–
	₱18,812.9	₱2,467.4	₱21,280.3

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

**Recognized in other comprehensive income

· PFRS 15, *Revenue from Contracts with Customers*

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

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

Rewards points program on credit card business

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

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

Revenue from contracts with customers of property development segment

On February 14, 2018, the Philippine Interpretations Committee (PIC) issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 29, 2018 and February 8, 2019, the Philippine Securities and Exchange Commission (SEC) issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three (3) years:

- a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E;
- b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D, and;
- c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H.

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A No. 2018-14: PFRS 15 - *Accounting for Cancellation of Real Estate Sales* was also deferred.

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

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

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

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the Philippine SEC will later prescribe.

The Group availed of the deferral of adoption of the following specific provisions of PIC Q&A. Had these provisions been adopted, it would have the following impact on the consolidated financial statements:

- a. The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using the effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
- b. The Group is acting as a principal for the provision of air-conditioning services, common usage services and administration and handling services. This would have resulted to the gross presentation of the related revenue and the related costs and expenses. Currently, the related

revenue is presented net of costs and expenses. These would not result to any adjustment in the retained earnings as of January 1, 2018 and net income for the year ended December 31, 2018.

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

	As previously reported at December 31, 2017	References	Adjustment	As adjusted at January 1, 2018
Real estate inventories	₱6,485.3	a	₱67.4	₱6,552.7
Contract receivables*	1,055.9	a	(22.1)	1,033.8
Deferred income tax assets - net	1,460.9	b	1.7	1,462.6
Other payables	22,024.0	a, b	(1.1)	22,022.9
Customers' deposits	987.9	a	76.1	1,064.0
Retained earnings	78,435.6	a, b	(28.0)	78,407.6

*Including noncurrent portion of contract receivables.

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

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

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

	References	Amounts prepared under		Increase/ (Decrease)
		PFRS 15	Previous PFRS	
Real estate sales	a	₱1,704.0	₱1,745.8	(₱41.8)
Cost real estate sales	a	1,209.1	1,232.1	(23.0)
Commissions	b	85.5	75.1	10.4
Income before income tax	a, b	25,548.0	25,577.2	(29.2)
Benefit from income tax - deferred	b	15.9	12.7	3.2
Net income from continuing operations	a, b	20,778.2	20,804.2	(26.0)

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

	References	Amounts prepared under		Increase/ (Decrease)
		PFRS 15	Previous PFRS	
Real estate inventories	a	₱5,268.1	₱5,178.1	₱90.0
Contract receivables*	a	1,348.5	1,384.5	(36.0)
Other current assets	b	362.8	362.7	0.1
Deferred income tax assets - net	b	1,899.0	1,894.1	4.9
Other payables	a, b	432.1	426.5	5.6
Customers' deposits	a	1,115.1	1,007.7	107.4
Retained earnings	a, b	91,998.9	92,052.9	(54.0)

*Including noncurrent portion of contract receivables.

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

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

The above resulted to (1) decrease in contract receivables of ₱22.1 million, other payables of ₱6.9 million and retained earnings of ₱23.9 million; and (2) an increase in real estate inventories of ₱67.4 million and customers' deposits of ₱76.1 million as of January 1, 2018.

As at December 31, 2018, PFRS 15 resulted to a (1) decrease in contract receivables of ₱36.0 million, other payables of ₱10.7 million and retained earnings of ₱42.7 million; and (2) an increase in real estate inventories of ₱90.0 million and customers' deposits of ₱107.4 million.

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

The above resulted to (1) increase in other payables of ₱5.8 million and deferred income tax assets of ₱1.7 million; and (2) decrease in retained earnings of ₱4.1 million as of January 1, 2018.

As at December 31, 2018, PFRS 15 resulted to (1) increase in other payables of ₱16.3 million; and (2) decrease in other current assets of ₱0.1 million, deferred income tax assets of ₱4.9 million and retained earnings of ₱11.3 million.

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

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

	Current Assets	Noncurrent Assets
Advances to contractors and suppliers	(₱1,012.2)	₱1,012.2

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

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

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

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

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

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

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

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

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

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:
 - o Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined

benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

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

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

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

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

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

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

· *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

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

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

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

○ *Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

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

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

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

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

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply on future business combinations of the Group.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

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

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments

clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

The Group continues to assess the impact of the above new and amended accounting standards and Interpretations effective subsequent to 2018 on the Group's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

Significant Accounting Policies Applicable to the Group

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheet based on current/noncurrent classification. An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

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

Investments in Associates and Joint Ventures

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

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

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

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

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

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

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

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

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

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

Financial Instruments – Classification and Subsequent Measurement

Date of recognition

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

Initial recognition of financial instruments

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

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

Derivatives recorded at FVTPL

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

Policies applicable effective January 1, 2018

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

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

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

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

Financial assets at FVTPL

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

Financial Assets at FVTOCI

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

Debt securities at FVTOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVTOCI, as well as the impact of restatement on foreign currency-

denominated debt securities at FVTOCI, is reported in the consolidated statement of income. Interest earned on holding debt securities at debt securities at FVTOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVTOCI are disposed of, the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is recognized as 'Trading and securities gain (loss) - net' under 'Banking revenue' in the consolidated statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit losses' in the consolidated statement of income.

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

Financial assets at amortized cost

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

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

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

Financial liabilities

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

Policies applicable prior to January 1, 2018

Financial assets or financial liabilities held-for-trading

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

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

Designated financial assets or financial liabilities at FVTPL

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

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

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

HTM investments

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

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

Loans and receivables

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

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

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

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

AFS investments

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

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

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

Other financial liabilities

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

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

Reclassification of financial assets

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

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

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

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

Financial liability

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

Repurchase and Reverse Repurchase Agreements

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

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the consolidated balance sheet. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid,

including accrued interest, is recognized on the consolidated balance sheet as ‘Securities held under agreements to resell’ under ‘Cash and cash equivalents’, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

Overview of the ECL principles

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

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

Stage Migration and Significant Increase in Credit Risk

Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12-month ECL.
- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

Definition of “Default” and “Cure”

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

Determining Significant Increase in Credit Risk

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

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

Staging Transfer

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

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

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

Modified or Restructured Loans and Other Credit Exposures

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

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

Purchased or Originated Credit-Impaired Loans

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

Measurement of ECL

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

- Probability-of-default (PD) - an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.

- Exposure-at-default (EAD) - an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Loss-given-default (LGD) - an estimate of the loss arising in case where defaults occurs at a given time. It is based on the difference between the contractual cash flow due and those that the Group would expect to receive, including from any collateral.
- Discount rate – represents the rate to be used to discount an expected loss to a present value at the reporting date using the original effective interest rate determined at initial recognition.

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

Macroeconomic Forecasts, Forward-looking Information and Probability-weighted Scenarios

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

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

Forward-looking macroeconomic information and scenarios shall consider:

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

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

Policies applicable prior to January 1, 2018

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

Investment securities at amortized cost

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

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

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

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

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

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

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow

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

Restructured loans

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

AFS investments

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

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

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

Offsetting of Financial Instruments

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

Other Current Assets

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

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

Property, Plant and Equipment

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

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

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

Land and land improvements, plant buildings and building improvements, and machineries and equipment are stated at revalued amounts based on a valuation performed by professionally qualified, accredited and independent appraisers. Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of reporting period. For subsequent revaluations, the accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals the revalued amount. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment on property, plant and equipment, net of related deferred income tax effect" (presented as part of "Other comprehensive income" in the equity section of the consolidated balance sheet). Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset. Further, the revaluation increment of depreciable property, plant and equipment is transferred to retained earnings as the asset is used by the Group. The amount of the revaluation increment transferred would be the difference between the depreciation and amortization based on the revalued carrying amount of the asset and depreciation and amortization based on the asset's original cost. In case the asset is retired or disposed of, the related remaining revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through profit or loss.

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

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

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

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

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

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

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

Other Properties Acquired

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

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

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

Intangible Assets

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

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

Software costs

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

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

Impairment of Noncurrent Nonfinancial Assets

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

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

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized

for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

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

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

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all its revenue arrangements except for their brokerage transactions. Refer to the significant accounting policies generally applicable to the consumer products, banking and property development for the specific recognition criteria that must also be met before revenue is recognized.

Costs and Expenses

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

Selling and general and administrative expenses

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

Taxes and licenses

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

Retirement Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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

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

Employee leave entitlement

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities necessary to prepare the asset for intended use are in progress and expenditures and borrowing costs

are being incurred. Borrowing costs are capitalized until the asset is available for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance these projects, to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed as incurred.

Debt Issue Costs

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

Leases

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

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

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

The Group as lessor

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

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

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

The Group as lessee

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

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

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

Foreign Currency-denominated Transaction and Translation

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

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

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

Foreign Currency Deposit Unit (FCDU) and Overseas Subsidiaries

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

Income Taxes

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

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

Value-added Tax (VAT)

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of “Other current assets” or “Accounts payable and accrued expenses” in the consolidated balance sheet.

Provisions and Contingencies

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

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

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

Equity

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

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

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

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

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

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policies and other capital adjustments. Unappropriated retained earnings represent that portion which can be declared as dividends to

stockholders after adjustments for any unrealized items which are considered not available for dividend declaration. Appropriated retained earnings represent that portion which has been restricted and therefore is not available for any dividend declaration.

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

Earnings Per Share

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

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

Dividends on Common Shares

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

Events after the Reporting Period

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

Segment Reporting

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

Significant Accounting Policies Generally Applicable to Banking

Banking Revenue

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

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

The banking segment assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The banking segment has concluded that it is acting as a principal

in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income

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

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

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

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

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

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

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

Interchange fee and revenue from rewards redeemed

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

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

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

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

Commissions earned on credit cards

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

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

Other income

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

Revenues outside the scope of PFRS 15:

Interest income

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

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the banking segment calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the banking segment reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Commission earned on reinsurance

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

Dividend income

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

Trading and investment securities gains - net

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

Rental income

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

Income on direct financing leases and receivables financed

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

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

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

Premiums revenue

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

Insurance Product Classification

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

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

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

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

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

Repurchase and Reverse Repurchase Agreements

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

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

Financial Guarantees

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

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

Policy Loans

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

Reinsurance

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

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

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

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

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

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

Deferred Acquisition Cost (DAC)

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

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

Residual Value of Leased Assets and Deposits on Finance Leases

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

Nonlife Insurance Contract Liabilities

Provision for unearned premiums

The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the

contracts. The portion of the premiums written that relate to the unexpired periods of the policies at the end of reporting period are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the consolidated balance sheet. The change in the provision for unearned premiums is taken to the consolidated statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Claims provision and incurred but not reported (IBNR) losses

Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the end of the reporting period, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract has expired, discharged or cancelled.

Liability Adequacy Test

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

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

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Significant Accounting Policies Generally Applicable to Consumer Products

Sale of Consumer Goods

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

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

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Sale of goods effective January 1, 2018

The Group enters into a marketing and distributorship agreement in which the Group undertakes to sell the products specified including its quantity indicated in an approved purchased order exclusively to the marketing distributors. No other promised goods or services was specified in the contract or provided based on the customary business practice. This is considered as one performance obligation; hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are delivered.

Sale of commercial bottles effective January 1, 2018

The Group enters into a contract with customer through an approved purchased order which constitute a valid contract as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified in the contract.

- Goods are sold and delivered to customer - the Group undertakes to sell the products specified in the approved purchase order and will deliver the products to the customer's premises. This is considered as two performance obligations. Hence, base transaction price will be allocated between the sale of goods and delivery costs. The base transaction price is composed of total price less discount and VAT. The Group recognizes revenue at a point in time, once goods are sold and delivered. Based on the customary business practice of the Group, the goods are sold and delivered on the same day.
- Goods are sold and picked up by customer - the contract is effectively modified when goods are picked up by the customer from the warehouse, the entire transaction price attributable to one performance obligation only. The delivery costs previously deducted from freight expenses will be presented as freight income as part of revenue under PFRS 15. Hence, no allocation of transaction price is needed. The Group recognizes revenue at a point in time, once the goods are picked up from the warehouse.

Sale of goods and commercial bottles prior to January 1, 2018

Revenue from the sale of goods, included under "Net sales", is recognized when goods are delivered to and accepted by the customers. Sale of goods are measured at the fair value of the consideration received or receivable, excluding discounts, returns and VAT.

Cost of Consumer Goods Sold

Cost of consumer goods sold is recognized as expense where the related goods are sold.

Consumer Goods Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

Finished goods and work in process include direct materials, direct labor, and manufacturing overhead costs. Raw materials include purchase cost. The cost of these inventories is determined using the following:

	Distilled Spirits	Beverage
Finished goods	Moving-average	Weighted-average
Work in process	Moving-average	Weighted-average
Raw materials and materials and supplies	Moving-average	Moving-average

NRV of finished goods is the estimated selling price less the estimated costs of marketing and distribution. NRV of work in process is the estimated selling price less estimated costs of completion and the estimated costs necessary to make the sale. For raw materials and materials and supplies, NRV is current replacement cost.

Significant Accounting Policies Generally Applicable to Property Development

Property Development Revenue and Cost Recognition

Real estate sales effective January 1, 2018

The Group derives its real estate sales from sale of residential lots and condominium units. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. This method measures progress based on the physical proportion of work done on the real estate project which requires technical determination by the Group's project engineers. Based on the monthly project accomplishment report approved by the site project manager which integrates the surveys of performance to date of the construction activities.

Real estate sales prior to January 1, 2018

The Group assesses whether it is probable that the economic benefits will flow to the Group when the sales prices are collectible. Collectability of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectability is also assessed by considering factors such as the credit standing of the buyer, age and location of the property.

The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. The Group starts recognizing income under percentage-of-completion when the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the consolidated balance sheet as part of real estate inventories and the deposit as part of "Customers' deposits" account.

Rental income

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

Charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants in "Other income" account is recognized in the period in which the compensation becomes receivable.

Cost of real estate sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of subdivision land and condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in consolidated statement of income on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

Cost of rental income

Cost of rental income is recognized in relation to the leasing activities of the Group. This includes general, administrative and selling expenses allocated to the leasing activities, rental expense on the property leased to tenants and depreciation of the investment properties.

Rooms and other operated departments

Revenue from room rentals and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center related services and car rentals, food packages, laundry service, telephone service, and spa/gym services.

Costs of services

Costs of services include expenses incurred by the Group for the generation of revenue from room rentals and other ancillary services. Costs of services are expensed as incurred.

Real Estate Inventories

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and NRV. Cost includes: (a) land cost; (b) amounts paid to contractors for construction; (c) borrowing costs, planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

Customers' Deposits including Excess of Collections over Recognized Receivables

Customers' deposits represent payments from buyers of property development segment which will be applied against the related contracts receivables. This account also includes the excess of collections over the recognized contracts receivables, which is based on the revenue recognition policy of the Group.

Security Deposits

Security deposits, included in the "Other current liabilities" and "Other noncurrent liabilities" accounts in the liabilities section of the consolidated balance sheet, are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method.

The difference between the cash received and its fair value is deferred, included in the "Other noncurrent liabilities" account in the consolidated balance sheet, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

Commissions

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are initially deferred and recorded as prepaid commissions when recovery is reasonably expected and charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage of completion method is used, commissions are recognized in the consolidated statement of income in the period the related revenue is recognized.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires the Group to exercise judgments, make accounting estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the accounting estimates to change. The effects of any change in accounting estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Accounting estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effects on amounts recognized in the consolidated financial statements:

Determination of functional currency

Judgment is exercised in assessing various factors in determining the functional currency of each entity within the Group, including prices of goods and services, competition, cost and expenses and other factors including the currency in which financing is primarily undertaken by each entity.

Additional factors are considered in determining the functional currency of a foreign operation, including whether its activities are carried as an extension of that of a parent company rather than being carried out with significant autonomy.

Each entity within the Group, based on the relevant economic substance of the underlying circumstances, have determined their functional currency to be Peso except for the following entities with functional currency other than the Peso:

Subsidiary	Functional Currency
PNB Guam	United States Dollar
PNB IIC	-do-
PNB RCI	-do-
Nevada	-do-
PNB RCI Holding Co. Ltd.	-do-
ACB	-do-
OHBVI	-do-
ABUK	Great Britain Pound
PNB Europe PLC	-do-

(Forward)

Subsidiary	Functional Currency
Canada	Canadian Dollar
PNB GRF	Hongkong Dollar
ABCHKL	-do-
ACR Nominees Limited	-do-
APB Singapore	United States Dollar
APB Myanmar	Myanmar Kyat

Assessment of control over the entities for consolidation

The Group has majority-owned subsidiaries discussed in Note 2. Management concluded that the Group controls these majority-owned subsidiaries arising from voting rights and, therefore, consolidates the entity in its consolidated financial statements. In addition, the Group accounts for its investments in OHBVI as a subsidiary although the Group, through PNB, holds less than 50% of OHBVI's issued share capital. Management concluded that the Group has the ability to control the relevant activities and to affect its returns in OHBVI on the basis of PNB's combined voting rights of 70.56%, which is arising from its direct ownership of 27.78% and assigned voting rights of 42.78% by certain stockholders to the Group.

Classification of financial assets beginning January 1, 2018

Beginning January 1, 2018, the Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

The SPPI test is the first of two tests that determine the classification of a financial asset. When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

The business model assessment (BMA) is the second test. The BMA reflects how financial assets are managed in order to generate net cash inflows, The Group performs BMA based on the following factors:

- Business objectives and strategies for holding financial assets
- Performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets
- Attendant risks and the tools applied in managing them
- Compensation structure, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions
- Frequency and timing of disposals

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP, particularly the guidelines contained in Circular No. 1011.

The Group's Bank Holding Companies have redeemable preferred shares which can be redeemed at the option of the Bank Holding Companies after seven years from the date of issuance. The Group classified these redeemable preferred shares amounting to ₱18.1 billion as equity as of December 31, 2018 and 2017 (see Note 30).

Revenue recognition on real estate sales

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of real estate property that would meet the requirements of PFRS 15; (b) assessment of the probability that the entity will collect the consideration from the buyer; (c) determination of the transaction price; (d) application of the output/input method as the measure of progress in determining real estate revenue; (e) determination of the actual costs incurred as cost of goods sold; and (f) recognition of cost to obtain a contract.

a) Existence of a contract

The Group's primary document for a contract with a customer is a signed contract to sell. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the real estate property that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity considers the significance of the customer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history customer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of customers' equity before commencing revenue recognition.

b) Revenue recognition method and measure of progress

The Group concluded that revenue for real estate sales is to be recognized over time because (a) the Group's performance does not create an asset with an alternative use and; (b) the Group has an enforceable right for performance completed to date. The promised property is specifically identified in the contract and the contractual restriction on the Group's ability to direct the promised property for another use is substantive. This is because the property promised to the customer is not interchangeable with other properties without breaching the contract and without incurring significant costs that otherwise would not have been incurred in relation to that contract. In addition, under the current legal framework, the customer is contractually obliged to make payments to the developer up to the performance completed to date.

The Group has determined that the output method used in measuring the progress of the performance obligation faithfully depicts the Group's performance in transferring control of real estate development to the customer.

c) Identifying performance obligation

The Group has various contracts to sell covering residential lots and condominium units. The Group concluded that there is one performance obligation in each of these contracts because: (i) for residential lots, the developer integrates the plots it sells with the associated infrastructure to be able to transfer the serviced land promised in the contract; (ii) for the contract covering condominium units, the developer has the obligation to deliver the house or condominium unit duly constructed on a specific lot and fully integrated into the serviced land in accordance with the approved plan. Included also in this performance obligation is the Group's service to transfer the title of the real estate unit to the customer.

Revenue recognition on sale of consumer goods

Revenue recognition under PFRS 15 involves the application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the buyer; (c) determining method to estimate variable consideration and assessing the constraint. (d) recognition of revenue as the Group satisfies the performance obligation.

a) Existence of a contract

The Group's primary document for a contract with a customer for each type of revenue stream is:

- *Sale of goods*

A signed marketing and distributorship agreement with an approved purchased order. Each party's rights regarding the goods to be transferred is clearly identified including the product specification and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

- *Sale of commercial bottles*

An approved purchased order with terms clearly identified including the product specification and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

b) Identifying performance obligation

The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

- *Sale of goods*

The Group undertakes to sell the products specified including its quantity indicated in an approved purchased order. This is considered as one performance obligation. Based on the customary business practice of the Group, the goods are sold and delivered on the same day.

- *Sale of commercial bottles*

Based on management assessment, there are two performance obligations in each of the approved purchase order. The Group undertakes (a) to sell the products specified in the approved purchase order and (b) to deliver the products to the customer's premises. These promises to sell and to deliver are separately identifiable since they are not highly interrelated with each other within the context of the contract. However, the contract is effectively modified as one performance obligation once the customer decide to pick up the goods from the warehouse.

c) Recognition of revenue as the Group satisfies the performance obligation

The Group recognizes its revenue for all revenue streams at a point in time, where the good are sold and delivered and when services were already rendered.

Operating lease commitments - the Group as lessor

The Group has entered into commercial property leases on its investment properties and certain motor vehicles and items of machinery. The Group has determined, based on an evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties and so accounts for these leases as operating leases (see Note 38).

Operating lease commitments - the Group as lessee

Currently, the Group has land lease agreements with several non-related and related parties. Based on an evaluation of the terms and conditions of the arrangements, management assessed that there is no transfer of ownership of the properties by the end of the lease term and the lease term is not a major part of the economic life of the properties. Thus, the Group does not acquire all the significant risks and rewards of ownership of these properties, and accordingly, accounts for the lease agreements as operating leases (see Note 38).

Classification of properties

The Group determines whether a property is classified as real estate inventory, investment property or owner-occupied property. In making its judgment, the Group considers whether the property generates cash flow largely independent of the other assets held by an entity.

Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction. Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Owner-occupied properties classified and presented as property, plant and equipment, generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as of the financial reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Determination of fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Bifurcation of embedded derivatives

Where a hybrid instrument is not classified as financial assets at FVTPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

Classification of Investment in AB Heineken Philippines, Inc (AB HPI) as Investment in an Associate

In 2016, the Group and Heineken International B.V. (Heineken) established AB HPI, a 50%-owned associate, through a joint venture agreement. The Group has determined that it has significant influence, but no control or joint control, over the operating and financial activities of AB HPI. Accordingly, the Group classified its investment in AB HPI as an investment in an associate.

Disposal of APLII

In 2016, PNB completed the sale of its 51% ownership interest in APLII for a consideration amounting to US\$66.0 million (₱3.1 billion). Pursuant to the sale of APLII, the Bank also entered into a distribution agreement with APLII where PNB will allow APLII to have exclusive access to the distribution network of the Bank over a period of 15 years [the Exclusive Distribution Rights (EDR)].

The Group has determined based on its evaluation that the share purchase agreement and distribution agreement have provisions referring to one another, making the distribution agreement an integral component of the sale transaction. Accordingly, the consideration received by the Bank was allocated between the sale of its 51% ownership interest in APLII and the EDR (see Notes 11 and 37).

Classification of transfer of beer segment as discontinued operations

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainties at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Provision for expected credit losses of financial assets beginning January 1, 2018

For banking segment, The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies.

Elements of the ECL models that are treated as accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively.
- Quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages.
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs.
- Selection of forward-looking information and determination of probability weightings to derive the ECL.

For the other segments, provision matrix was used to calculate ECLs. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, property collaterals and coverage by letters of credit and other forms of credit insurance).

The assessment of the correlation between historical observed default rates, forecast economic conditions (i.e., gross domestic product and inflation rate) and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from Special Purpose Vehicle (SPV), respectively.

Estimation of allowance for credit losses on loans and receivables prior to January 1, 2018

The Group reviews its impaired loans and receivables at each reporting date to assess whether additional provision for credit losses should be recorded in the consolidated statement of income. The Group determines the allowance for credit losses on loans and receivables on individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collection, observable market prices and expected net selling prices of the collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Refer to Notes 8 and 14 for the carrying values of loans and receivables and receivables from SPV, respectively.

Estimation of retirement benefits costs and liability

The Group's retirement benefits costs and liability is actuarially computed. This entails using certain assumptions with respect to prospective salary increases, employee turnover rates and discount rates per annum.

Net retirement plan assets as of December 31, 2018 and 2017 amounted to ₱280.5 million and ₱273.7 million, respectively. Net retirement benefits liability amounted to ₱1.6 billion and ₱2.2 billion as of December 31, 2018 and 2017, respectively (see Notes 14 and 23).

Revenue and cost recognition on real estate sales

The Group's revenue and cost recognition policies on real estate sales require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue and cost of real estate sales are recognized based on the percentage of completion which is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

The Group recognized revenue from real estate sales amounting to ₱1.7 billion, ₱0.8 billion and ₱1.6 billion and cost of real estate sales amounting to ₱1.2 billion, ₱0.4 billion and ₱1.1 billion in 2018, 2017 and 2016, respectively (see Note 24).

Impairment of AFS investments prior to January 1, 2018

The computation for the impairment of AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In

making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities.

As of December 31, 2017, the carrying value of the Group's AFS investments amounted to ₱73.2 billion, net of allowance for impairment losses on AFS equity investments amounting to ₱696.2 million (see Note 7).

Fair values of structured debt instruments and derivatives

The fair values of structured debt instruments and derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practicable, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 34 for information on the fair values of these instruments.

Valuation of insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at reporting date and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty. Nonlife insurance contract liabilities are not discounted for the time value of money.

The main assumption underlying the estimation of the claims provision is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development (see Note 20).

Measurement of NRV of inventories

The Group's estimates of the NRV of its consumer goods inventories and materials and supplies are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

With respect to the Group's real estate inventories, the Group adjusts the cost of its real estate inventories to NRV based on its assessment of the recoverability of cost of the inventories. NRV for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. NRV in respect of real estate inventories under construction is assessed with reference to market prices at the

reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The Group's inventories carried at cost as of December 31, 2018 and 2017 amounted to ₱12.4 billion and ₱12.7 billion, respectively. Certain materials and supplies amounting to ₱0.7 billion and ₱0.6 billion as of December 31, 2018 and 2017, respectively, are carried at NRV (see Note 9).

Valuation of property, plant and equipment under revaluation basis

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

Property, plant and equipment at appraised values amounted to ₱60.3 billion and ₱36.2 billion as of December 31, 2018 and 2017, respectively (see Note 12).

Estimation of useful lives of property, plant and equipment and investment properties

The Group estimates the useful lives and residual values of property, plant and equipment and investment properties based on internal technical evaluation and experience with similar assets. Estimated useful lives and residual values of property, plant and equipment and investment properties are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment and investment properties would increase the recorded depreciation expenses and decrease the carrying value of property, plant and equipment and investment properties. In 2018 and 2017, there were no significant changes made in the useful lives and residual values of the property, plant and equipment and investment properties (see Notes 12 and 13).

The total carrying amount of depreciable property, plant and equipment as of December 31, 2018 and 2017 amounted to ₱27.5 billion and ₱26.4 billion, respectively (see Note 12). The carrying amount of depreciable investment properties as of December 31, 2018 and 2017 amounted to ₱7.6 billion and ₱7.2 billion, respectively (see Note 13).

Assessment of impairment of nonfinancial assets and estimation of recoverable amount

The Group assesses at the end of each reporting period whether there is any indication that the nonfinancial assets listed below may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value-in-use. In determining fair value less costs to sell, an appropriate valuation model is used, which can be based on quoted prices or other available fair value indicators.

In estimating the value-in-use, the Group is required to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amounts of the nonfinancial assets listed below, which involves the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the use of estimates and assumptions that can materially affect the

consolidated financial statements. Future events could indicate that these nonfinancial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Group.

The preparation of estimated future cash flows involves significant judgment and estimations. While the Group believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect its assessment of recoverable values and may lead to future additional impairment changes under PFRSs.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Other current assets (except miscellaneous cash and other cash items) [Note 10]	₱8,863,642	₱11,804,831
Investments in associates and joint ventures (Note 11)	20,314,141	17,230,925
Property, plant and equipment (Note 12)	68,120,694	43,205,233
Investment properties (Note 13)	30,318,901	28,890,793
Other noncurrent assets (except net retirement plan assets, refundable and security deposits and goodwill) [Note 14]	5,798,886	5,044,010

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis every December 31, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value in use of the CGU to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Management determined that the goodwill amounting to ₱163.7 million as of December 31, 2018 and 2017 is not impaired (see Note 14).

Provisions and contingencies

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the legal counsels handling the defense in these matters and is based upon the analysis of potential results. The Group currently does not believe these proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or effectiveness of the strategies relating to these proceedings and assessments.

Reversal of legal claims amounted to ₱253.3 million and ₱331.2 million as of December 31, 2018 and 2017, respectively (see Note 38).

Recognition of deferred income tax assets

The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that

the Group will generate sufficient future taxable income to allow all or part of the deferred income tax assets to be utilized.

The Group has NOLCO, excess MCIT over and other deductible temporary differences, which relate to the parent company and certain subsidiaries that have a history of losses and may not be used to offset taxable income elsewhere in the Group. The Company and these certain subsidiaries neither have any taxable temporary difference nor was any tax planning opportunities available that could support the recognition of deferred income tax assets on these NOLCO, excess MCIT over RCIT and other deductible temporary differences totaling to ₱13.2 billion and ₱3.5 billion as of December 31, 2018 and 2017, respectively (see Note 29).

Determination of fair value of shares of APLII and EDR

The Group determined the fair value of the shares of APLII using a combination of the Income Approach and the Market Approach. The Income Approach was based on the present value of the future cash flows over a three-year period, adjusted for the control premium and the lack of marketability discount. Significant management judgment is required to determine the expected future cash flows. The valuation under the Income Approach is most sensitive to discount rate and growth rate used to project cash flows.

4. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group's identified operating segments classified as business groups, which are consistent with the segments reported to LTG's BOD, its Chief Operating Decision Maker (CODM), are as follows:

- Banking, provides full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies, including deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers or remittance servicing and full range of retail banking and trust services and other insurance services. The Group conducts its banking business through PNB and its subsidiaries.
- Distilled Spirits, which is involved in manufacturing, compounding, bottling, importing, buying and selling of rum, spirit beverages, liquor and bioethanol products. The Group conducts its distilled spirits business through TDI and its subsidiaries.
- Beverage, which is engaged in brewing and soft drinks and bottled water manufacturing in the Philippines. It also operates other plants, which includes commercial glass division and corrugated cartons and metal closures production facility, to support the requirements of its brewing, bottled water, non-beer products operations and to act as a service contractor and enter into service agreements for the supply of services. The Group conducts its beverage business through 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 12.3% and 2.8% as of December 31, 2018, respectively, and 10.3% and 2.6% as of December 31, 2017 of the Group's consolidated assets and revenues, respectively.

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

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

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

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

The Group's distilled spirits segment derives revenue from two major distributors which averaged 85%, 85% and 84% of the segment's total revenue in 2018, 2017 and 2016, respectively. The other segments of the Group have no significant customer that contributes 10% or more of their segment revenues.

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

For the year ended December 31, 2018:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	P40,172,558	P18,062,573	P14,125,559	P–	P3,198,735	P–	P75,559,425
Inter-segment	243,617	73,385	969,640	–	–	(1,286,642)	–
	40,416,175	18,135,958	15,095,199	–	3,198,735	(1,286,642)	75,559,425
Cost of goods sold and services	9,784,000	14,845,768	10,995,031	–	1,582,655	(1,242,052)	35,965,402
Gross profit	30,632,175	3,290,190	4,100,168	–	1,616,080	(44,590)	39,594,023
Equity in net earnings (loss) of associates and joint ventures	43,847	–	(736,051)	8,461,642	–	197,253	7,966,691
	30,676,022	3,290,190	3,364,117	8,461,642	1,616,080	152,663	47,560,714
Selling expenses	–	1,468,287	1,130,938	–	101,162	–	2,700,387
General and administrative expenses	25,301,772	650,454	1,230,068	123,783	846,640	149,560	28,302,277
Operating income	5,374,250	1,171,449	1,003,111	8,337,859	668,278	3,103	16,558,050
Foreign exchange gains - net	942,372	1,176	6,064	121,542	4,757	14,980	1,090,891
Finance income	–	1,345	22,533	278,345	57,320	(152,902)	206,641
Finance costs	–	(49,816)	(75,405)	–	(291,172)	270,936	(145,457)
Others - net	7,344,532	24,041	25,217	68,172	229,267	146,679	7,837,908
Income before income tax	13,661,154	1,148,195	981,520	8,805,918	668,450	282,796	25,548,033
Provision for income tax	3,663,744	239,271	560,609	55,103	189,694	61,379	4,769,800
Segment profit from:							
Continuing operations	9,997,410	908,924	420,911	8,750,815	478,756	221,417	20,778,233
Discontinued operations	(219,972)	–	–	–	–	–	(219,972)
	P9,777,438	P908,924	P420,911	P8,750,815	P478,756	P221,417	P20,558,261
Segment profit attributable to:							
Equity holders of the Company	P9,686,390	P889,908	P422,720	P8,750,815	P478,756	(P4,033,811)	P16,194,778
Non-controlling interests	91,048	19,016	(1,809)	–	–	4,255,228	4,363,483
Depreciation and amortization expense	1,782,542	554,067	1,462,636	27,094	312,875	21,742	4,160,956

Other financial information of the operating segments as of December 31, 2018 is as follows:

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

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱31,840,282	₱16,704,933	₱12,948,796	₱-	₱2,233,063	₱-	₱63,727,074
Inter-segment	274,244	89,388	944,440	-	-	(1,308,072)	-
	32,114,526	16,794,321	13,893,236	-	2,233,063	(1,308,072)	63,727,074
Cost of goods sold and services	6,339,368	14,077,274	9,591,814	-	808,582	(1,137,228)	29,679,810
Gross profit	25,775,158	2,717,047	4,301,422	-	1,424,481	(170,844)	34,047,264
Equity in net earnings (loss) of associates and joint ventures	59,215	-	(636,330)	4,366,967	-	173,653	3,963,505
	25,834,373	2,717,047	3,665,092	4,366,967	1,424,481	2,809	38,010,769
Selling expenses	-	1,319,102	1,326,726	-	46,597	-	2,692,425
General and administrative expenses	21,763,710	584,829	1,086,694	141,044	684,931	119,257	24,380,465
Operating income	4,070,663	813,116	1,251,672	4,225,923	692,953	(116,448)	10,937,879
Foreign exchange gains (losses) - net	1,676,926	(1,307)	3,772	23,408	(149)	1,208	1,703,858
Finance income	-	215	25,012	101,413	44,556	(14,096)	157,100
Finance costs	-	(33,206)	(50,900)	-	(355,120)	297,289	(141,937)
Others - net	5,054,045	54,361	(37,647)	71,369	129,858	71,174	5,343,160
Income before income tax	10,801,634	833,179	1,191,909	4,422,113	512,098	239,127	18,000,060
Provision for income tax	2,314,935	202,052	639,729	19,110	164,458	149,493	3,489,777
Segment profit							
Continuing operations	8,486,699	631,127	552,180	4,403,003	347,640	89,634	14,510,283
Discontinued operations	70,373	-	-	-	-	-	70,373
	₱8,557,072	₱631,127	₱552,180	₱4,403,003	₱347,640	₱89,634	₱14,580,656
Segment profit attributable to:							
Equity holders of the Company	₱4,830,426	₱623,802	₱552,180	₱4,384,387	₱346,319	₱93,659	₱10,830,773
Non-controlling interests	3,726,646	7,325	-	18,616	1,321	(4,025)	3,749,883
Depreciation and amortization expense	1,519,111	514,624	1,393,040	19,040	254,105	21,803	3,721,723

Other financial information of the operating segments as of December 31, 2017 is as follows:

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	₱375,392,442	₱12,959,935	₱12,112,007	₱11,508,813	₱10,645,975	(₱7,043,863)	₱415,575,309
Noncurrent assets	448,155,535	7,105,438	15,783,681	14,516,726	19,079,479	(3,120,479)	501,520,380
	₱823,547,977	₱20,065,373	₱27,895,688	₱26,025,539	₱29,725,454	(₱10,164,342)	₱917,095,689
Liabilities:							
Current liabilities	₱664,985,426	₱3,483,340	₱4,355,838	₱303,905	₱4,892,439	(₱12,623,125)	₱665,397,823
Noncurrent liabilities	51,413,216	623,725	1,011,573	84,530	8,143,165	(4,893,758)	56,382,451
	₱716,398,642	₱4,107,065	₱5,367,411	₱388,435	₱13,035,604	(₱17,516,883)	₱721,780,274
Investments in associates and joint ventures	₱2,363,757	₱-	₱1,032,149	₱11,447,030	₱-	₱2,387,989	₱17,230,925
Equity attributable to:							
Equity holders of the Company	61,602,401	15,819,758	22,484,240	25,637,104	16,689,850	6,081,150	148,314,503
Non-controlling interests	45,546,934	138,550	44,037	-	-	1,271,391	47,000,912
Additions to noncurrent assets:							
Property, plant and equipment	1,930,786	423,237	1,886,560	47,942	28,785	11,016	4,328,326
Investment properties	625,660	-	-	51,233	1,741,479	-	2,418,372
Short-term debts	-	880,000	1,550,000	-	-	(880,000)	1,550,000
Long-term debts	-	-	-	-	6,080,147	(4,490,000)	1,590,147

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	(In Thousands)						
Segment revenue:							
External customers	₱29,142,262	₱14,904,343	₱10,932,326	₱-	₱2,851,514	₱-	₱57,830,445
Inter-segment	190,274	109,385	917,651	-	-	(1,217,310)	-
	29,332,536	15,013,728	11,849,977	-	2,851,514	(1,217,310)	57,830,445
Cost of goods sold and services	5,722,739	12,293,366	7,818,988	-	1,342,857	(1,051,069)	26,126,881
Gross profit	23,609,797	2,720,362	4,030,989	-	1,508,657	(166,241)	31,703,564
Equity in net earnings of associates	-	-	-	2,587,224	-	198,621	2,785,845
	23,609,797	2,720,362	4,030,989	2,587,224	1,508,657	32,380	34,489,409
Selling expenses	-	999,866	1,310,612	-	52,848	(11,804)	2,351,522
General and administrative expenses	22,689,205	551,755	907,564	152,630	628,773	107,221	25,037,148
Operating income	920,592	1,168,741	1,812,813	2,434,594	827,036	(63,037)	7,100,739
Foreign exchange gains - net	1,486,224	364	-	27,417	4,251	15,445	1,533,701
Finance income	-	159	20,807	70,136	55,871	(40,547)	106,426
Finance costs	-	(10,967)	(48,789)	-	(357,700)	214,966	(202,490)
Others - net	5,799,417	14,664	(189,206)	50,537	71,811	(1,423,411)	4,323,812
Income before income tax	8,206,233	1,172,961	1,595,625	2,582,684	601,269	(1,296,584)	12,862,188
Provision for (benefit from) income tax	1,509,330	265,459	548,815	(3,579)	211,760	(365,016)	2,166,769
Segment profit (loss) from:							
Continuing operations	6,696,903	907,502	1,046,810	2,586,263	389,509	(931,568)	10,695,419
Discontinued operations	685,330	-	708,407	-	-	-	1,393,737
	₱7,382,233	₱907,502	₱1,755,217	₱2,586,263	₱389,509	(₱931,568)	₱12,089,156
Segment profit attributable to:							
Equity holders of the Company	₱4,147,220	₱898,192	₱1,755,217	₱2,575,375	₱388,029	(₱373,626)	₱9,390,407
Non-controlling interests	3,235,013	9,310	-	10,888	1,480	(557,942)	2,698,749
Depreciation and amortization expense	1,393,334	529,743	1,538,972	11,477	163,644	20,188	3,657,358

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

	Banking	Distilled Spirits	Beverage	Tobacco	Property Development	Eliminations, Adjustments and Others	Total
	<i>(In Thousands)</i>						
Assets:							
Current assets	₱376,639,685	₱11,281,760	₱11,899,140	₱10,107,420	₱12,774,195	(₱17,925,076)	₱404,777,124
Noncurrent assets	364,245,652	7,159,081	15,017,583	13,362,146	16,415,790	8,113,648	424,313,900
	₱740,885,337	₱18,440,841	₱26,916,723	₱23,469,566	₱29,189,985	(₱9,811,428)	₱829,091,024
Liabilities:							
Current liabilities	₱575,558,848	₱2,463,592	₱4,019,000	₱317,324	₱6,816,393	(₱11,108,655)	₱578,066,502
Noncurrent liabilities	68,358,018	651,039	1,113,781	92,136	6,043,487	(3,838,515)	72,419,946
	₱643,916,866	₱3,114,631	₱5,132,781	₱409,460	₱12,859,880	(₱14,947,170)	₱650,486,448
Investments in associates and a joint venture	₱2,532,754	₱-	₱1,643,304	₱11,049,385	₱-	₱1,591,908	₱16,817,351
Equity attributable to:							
Equity holders of the Company	55,888,301	15,196,522	21,783,942	23,060,106	16,330,105	3,839,009	136,097,985
Non-controlling interests	41,080,170	129,688	-	-	-	1,296,733	42,506,591
Additions to noncurrent assets:							
Property, plant and equipment	2,133,146	612,136	1,987,832	3,946	29,258	2,693	4,769,011
Investment properties	681,510	-	-	-	389,314	1,466	1,072,290
Short-term debts	-	-	1,750,000	-	-	-	1,750,000
Long-term debts	3,497,798	-	-	-	4,070,949	(2,000,000)	5,568,747

5. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2018	2017
	(In Thousands)	
Cash and other cash items	₱21,298,919	₱17,782,966
Cash equivalents:		
Due from <i>Bangko Sentral ng Pilipinas</i> (BSP)	102,723,312	108,743,985
Due from other banks	20,525,318	20,038,263
Interbank loans receivable	11,248,455	12,837,721
Securities held under agreements to resell	20,700,000	14,621,483
	₱176,496,004	₱174,024,418

- Cash and other cash items consist of cash on hand and in banks and short-term investments. Cash in banks earn interest at bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group.
- Due from BSP is composed of interest-bearing short-term placements with BSP and a demand deposit account to support the regular operations of PNB.
- Interest earned on cash and other cash items and cash equivalents are presented under "Finance income" and "Banking revenue", respectively (see Notes 24 and 27).

6. Financial Assets at Fair Value through Profit or Loss

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

	2018	2017
	(In Thousands)	
Government securities	₱8,457,713	₱2,207,953
Equity securities	545,148	73,917
Derivative assets (Notes 21 and 33)	574,628	562,984
Private debt securities	415,583	109,081
Unit investment trust fund (UITF)	789,949	3,564,484
	₱10,783,021	₱6,518,419

- As of December 31, 2018 and 2017, unrealized loss on government and private debt securities amounted to ₱5.4 million and ₱73.0 million, respectively. In 2018, 2017 and 2016, the nominal interest rates range from 2.75% to 8.38%, from 2.13% to 6.13% and from 2.75% to 10.63%, respectively, for the government securities, and from 3.0% to 7.5%, from 5.23% to 6.63%, and from 5.5% to 7.38%, respectively, for the private debt securities.
- The carrying amount of equity securities includes unrealized loss of ₱7.9 million and ₱22.0 million as of December 31, 2018 and 2017, respectively.

- c. On various dates in 2014, the Group invested in PNB Institutional Money Market Fund which is a money market UITF. The investment is subject to a minimum holding period of 30 days. Mark-to-market gains on financial assets at FVTPL amounted to ₱17.2 million, ₱59.5 million and ₱63.0 million in 2018, 2017 and 2016, respectively (see Note 28). Realized gains from redemption of investment presented under finance income amounted to ₱22.9 million in 2018, ₱20.2 million in 2017 and ₱6.3 million in 2016 (see Note 27).

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

Financial Assets at FVTOCI

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

Government securities (Note 17)	₱33,565,677
Other debt securities	17,672,009
Equity securities:	
Quoted	3,984,141
Unquoted	2,129,641
	57,351,468
Noncurrent portion	(48,094,583)
	<u>₱9,256,885</u>

AFS Investments

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

Government securities (Note 17)	₱41,625,900
Other debt securities	27,394,342
Equity securities:	
Quoted	3,833,789
Unquoted	1,051,616
	73,905,647
Allowance for impairment losses	(696,235)
	73,209,412
Noncurrent portion	(70,664,823)
	<u>₱2,544,589</u>

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

- For the years ended December 31, 2018, 2017 and 2016, the nominal interest rates of government securities range from 1.83% to 11.63%, 1.05% to 10.63% and 2.75% to 10.63%, respectively.
- For the years ended December 31, 2018 and 2017, and 2016, the nominal interest rates of private debt securities range from 2.63% to 7.38% and 5.50% to 7.38%, respectively.
- As of December 31, 2018 and 2017, the fair value of financial assets at FVTOCI/AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to

₱21.5 billion (see Note 17). The counterparties have an obligation to return the securities to PNB once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

- d. Other debt securities consist of notes issued by private entities.
- e. As of December 31, 2018 and 2017, effective interest rates for the financial assets at FVTOCI/ AFS investments follow:

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

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

As of December 31, 2018, the net unrealized gains on financial assets at FVTOCI amounted to ₱1.4 billion for the Group, net of deferred income tax effect amounting to ₱214.6 million.

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

Balance at beginning of year	(₱2,971,896)
Net changes in fair value of AFS investments during the year*:	
Fair value changes during the year on financial assets at AFS investments	2,984,496
Realized gains**(Note 24)	(506,238)
	2,478,258
Balance at end of year	(₱493,638)
Attributable to:	
Equity holders of the Company	₱371,483
Non-controlling interests	(865,121)
	(₱493,638)

* Net of deferred income tax effect amounting to ₱0.7 million.

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

Financial Assets at Amortized Cost

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

Government securities (Note 19)	₱60,278,202
Private debt securities (Note 19)	43,263,773
	103,541,975
Less allowance for expected credit losses (Note 12)	(3,769,264)
	₱99,772,711

The allowance for expected credit losses as of January 1, 2018 was ₱3.7 billion and increased by ₱57.7 million at December 31, 2018. Movements over the year were mostly driven by the movements in the corresponding gross figures in 2018. The impairment allowance under PAS 39 for financial assets at amortized cost was nil.

As of December 31, 2018 the fair value of financial asset at amortized cost investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱36.3 billion (see Note 17).

Held-to-Maturity Investments

As of December 31, 2017, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱17.8 billion (see Note 17).

Reclassification of financial assets

On March 3 and March 5, 2014, the Group reclassified certain AFS investments with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification, as HTM investments, as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD of PNB on February 28, 2014. The previous fair valuation gains amounting to ₱2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2018, the Group has no reclassified investment securities. As of December 31, 2017, the carrying values and fair values of the Group's reclassified investment securities amounted to ₱24.0 billion. Had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group in the consolidated statements of comprehensive income amounts to nil in 2018, ₱0.5 billion in 2017 and ₱0.3 billion in 2016.

8. Loans and Receivables

Loans and receivables consist of:

	2018	2017
	<i>(In Thousands)</i>	
Finance receivables (Notes 17 and 22)	₱593,748,803	₱514,363,730
Trade receivables	14,311,108	13,266,725
Other receivables	3,193,332	2,731,658
	611,253,243	530,362,113
Allowance for credit losses	(17,564,900)	(18,116,748)
	593,688,343	512,245,365
Noncurrent portion	(347,753,938)	(307,622,788)
	₱245,934,405	₱204,622,577

Finance Receivables

	2018	2017
	(In Thousands)	
Receivables from customers:		
Loans and discounts	₱539,217,233	₱452,206,784
Customers' liabilities on acceptances, letters of credit and trust receipts	13,996,644	11,912,916
Bills purchased (Note 20)	2,222,377	1,723,514
Credit card receivables	13,412,063	10,145,474
Finance lease receivables	2,928,339	2,891,043
	571,776,656	478,879,731
Unquoted debt securities*	–	14,674,130
Other receivables:		
Accounts receivable	4,025,936	10,215,695
Accrued interest receivable	6,717,723	4,414,165
Sales contract receivables	11,916,785	7,155,924
Miscellaneous	552,443	577,369
	23,212,887	22,363,153
	594,989,543	515,917,014
Unearned and other deferred income	(1,240,740)	(1,553,284)
	593,748,803	514,363,730
Allowance for credit losses	(17,100,449)	(18,056,306)
	576,648,354	496,307,424
Noncurrent portion	(347,459,220)	(306,855,992)
	₱229,189,134	₱189,451,432

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

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

In 2016, the Group applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2018 and 2017, the remaining receivables (included in 'Loans and receivables') amounted to ₱0.3 billion which is fully covered by an allowance.

b. Unquoted debt securities

Unquoted debt instruments include the zero-coupon notes received by PNB from SPV Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. In 2016, PNB obtained additional non-resident unquoted debt investments amounting to ₱3.4 billion. These investments are zero-rated bonds issued by Chinese financial institutions. As of December 31, 2018 and 2017, the notes are carried at their recoverable values.

c. Finance lease receivable

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

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

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

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
Receivable from customers and sales			
contract receivables	₱29,966,048	₱22,255,272	₱19,454,187
Unquoted debt securities	–	146,012	51,160
	₱29,966,048	₱22,401,284	₱19,505,347

As of December 31, 2018 and 2017, 64.09% and 96.1%, respectively, of the total receivable from customers of the Group were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.75% to 9.00% in 2018, from 2.0% to 8.3% in 2017 and from 2.3% to 8.8% in 2016 for foreign currency-denominated receivables, and from 1.53% to 13.00% in 2018, from 1.9% to 7.9% in 2017 and from 1.0% to 35.0% in 2016 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 3.30% to 21.00%, 2.70% to 21.00% and 5.00% to 21.00% in 2018, 2017 and 2016, respectively. Interest income accrued on impaired loans and receivable of the Group amounted to ₱217.0 million in 2018, ₱99.0 million in 2017 and ₱103.7 million in 2016.

Trade Receivables

Trade receivables consist of:

	2018	2017
	<i>(In Thousands)</i>	
Consumer goods	₱12,916,794	₱12,183,109
Contract receivables	1,348,498	1,055,912
Lease receivables	45,816	27,704
	14,311,108	13,266,725
Allowance for credit losses/doubtful accounts	(453,211)	(49,202)
	13,857,897	13,217,523
Noncurrent portion of contract receivables	(294,718)	(766,796)
	₱13,563,179	₱12,450,727

- a. Trade receivables on consumer goods pertain to receivables from various customers of distilled spirits, beverages and tobacco segments, which are noninterest-bearing and generally have 30 to 90 days' terms.
- b. Contracts receivables of the property development segment consist of revenues recognized to date based on percentage of completion less collections received from the respective buyers. Interest income from interest-bearing contracts receivables amounted to ₱14.3 million, ₱16.5 million and ₱41.7 million in 2018, 2017 and 2016, respectively (see Note 27).

Other Receivables

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned on cash and cash equivalents and unpaid utility charges to tenants and receivables from sale of various assets.

Movements of Allowance for Credit Losses

Details and movements of allowance for credit losses as follows:

	December 31, 2018			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	<i>(In Thousands)</i>			
Balance at beginning of year, as previously reported	₱18,056,306	₱49,202	₱11,240	₱18,116,748
Impact of adoption of PFRS 9	2,074,363	364,737	–	2,439,100
Balance at beginning of year, as adjusted	20,130,669	413,939	11,240	20,555,848
Provisions during the year (Note 26)	1,691,282	3,601	–	1,694,883
Accounts charged off, transfers and others	(4,721,502)	35,671	–	(4,685,831)
Balance at end of year	₱17,100,449	₱453,211	₱11,240	₱17,564,900

Movements of Allowance for Doubtful Accounts

Details and movements of allowance for doubtful accounts as follows:

	December 31, 2017			
	Finance Receivables	Trade Receivables	Other Receivables	Total
	<i>(In Thousands)</i>			
Balance at beginning of year	₱17,253,410	₱41,904	₱11,240	₱17,306,554
Provisions during the year (Note 26)	1,184,866	7,354	–	1,192,220
Accounts charged off, transfers and others	(381,970)	(56)	–	(382,026)
Balance at end of year	₱18,056,306	₱49,202	₱11,240	₱18,116,748

9. Inventories

Inventories consist of:

	2018	2017
	<i>(In Thousands)</i>	
At Cost:		
Consumer goods:		
Alcohol	₱3,247,739	₱3,341,553
Beverage	2,886,739	2,034,272
	6,134,478	5,375,825
Real estate inventories:		
Condominium and residential units for sale	507,099	926,139
Subdivision land under development	217,542	4,459,621
Land held for future development	4,543,419	1,099,584
	5,268,060	6,485,344
Fuel, materials and supplies	1,006,896	881,267
	12,409,434	12,742,436
At NRV - Materials and supplies	698,770	622,653
	₱13,108,204	₱13,365,089

Allowance for inventory obsolescence on materials and supplies amounted to ₱4.1 million and ₱5.5 million as of December 31, 2018 and 2017, respectively.

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

	2018	2017
	<i>(In Thousands)</i>	
Finished goods	₱667,515	₱670,852
Work in process	1,480,638	1,479,234
Raw materials	3,986,325	3,225,739
	₱6,134,478	₱5,375,825

Cost of consumer goods inventories recognized as expenses under cost of goods sold amounted to ₱17.0 billion, ₱12.2 billion and ₱10.9 billion in 2018, 2017 and 2016, respectively (see Note 24).

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

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱6,485,344	₱6,726,546
Construction/development costs incurred	394,855	729,347
Transfer to property, plant and equipment and investment properties (Notes 12, 13 and 35)	(282,918)	(536,674)
Disposals and others	(1,329,221)	(433,875)
Balance at end of year	₱5,268,060	₱6,485,344

10. Other Current Assets

	2018	2017
	<i>(In Thousands)</i>	
Creditable withholding taxes (CWT)	₱4,749,253	₱5,926,539
Input VAT	1,432,793	1,080,287
Advances to suppliers	907,300	986,730
Prepaid expenses	863,781	603,706
Excise tax (Note 38)	278,257	1,186,082
Miscellaneous cash and other cash items	242,058	666,761
Deferred rent	170,162	184,628
Stationeries, office supplies and stamps on hand	96,754	323,630
Deferred charges	2,549	2,040
Deferred reinsurance premiums	—	820,757
Others	362,793	690,432
	₱9,105,700	₱12,471,592

- 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.
- Advances to suppliers pertain to deposits made for raw material purchases and are applied upon delivery of the related inventories.
- Excise tax pertains to advance tax payments to the Bureau of Internal Revenue (BIR) on sale of alcoholic beverages (see Note 38).
- Prepaid expenses include prepaid importation charges amounting to ₱114.3 million and ₱103.7 million as of December 31, 2018 and 2017, respectively. Prepaid importation charges pertain to the purchases of raw materials by the distilled spirits and beverage businesses.
- Others include interoffice floats and advances to contractors.

11. Investment in Associates and Joint Ventures

Investments in Associates and Joint Ventures

The Group has the power to participate in the financial and operating policy decisions of PMFTC, Victorias Milling Company, Inc. (VMC), AB HPI, and APLII. The Group also has 50% interest in ABI Pascual Holdings Private Limited (ABI Pascual Holdings) and ALI-Eton Property Development Corporation (AEPDC) which are jointly controlled entities.

	Ownership		Amount	
	2018	2017	2018	2017
	<i>(In Thousands)</i>			
<i>Associates:</i>				
PMFTC	49.6%	49.6%	₱12,818,935	₱10,751,235
VMC	30.9%	30.9%	2,648,053	2,411,284
AB HPI	50.0%	50.0%	274,897	997,736
APLII	44.0%	44.0%	2,415,414	2,363,757
<i>Joint Ventures:</i>				
ABI Pascual Holdings	50.0%	50.0%	30,516	34,413
AEPDC	50.0%	50.0%	2,126,326	672,500
			₱20,314,141	₱17,230,925

Investment in PMFTC

Details of investment in PMFTC are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Acquisition cost	₱13,483,541	₱13,483,541
Accumulated equity in net earnings:		
Balance at beginning of year	(2,909,390)	(3,189,762)
Equity in net earnings	8,461,642	4,366,968
Cash dividends (Note 22)	(6,461,118)	(4,086,596)
Balance at end of year	(908,866)	(2,909,390)
Accumulated share in other comprehensive income	244,260	177,084
	₱12,818,935	₱10,751,235

On February 25, 2010, FTC and PMPMI combined their respective domestic business operations by transferring selected assets and liabilities to PMFTC in accordance with the provisions of the Asset Purchase Agreement (APA) between FTC and its related parties and PMPMI. The establishment of PMFTC allows FTC and PMPMI to benefit from their respective, complementary brand portfolios as well as cost synergies from the resulting integration of manufacturing, distribution and procurement, and the further development and advancement of tobacco industry growing in the Philippines. FTC and PMPMI hold equal economic interest in PMFTC. Since PMPMI has majority of the members of the BOD, it has control over PMFTC. FTC considers PMFTC as an associate.

As a result of FTC's divestment of its cigarette business to PMFTC, FTC initially recognized the investment amounting to ₱13.5 billion, representing the fair value of the net assets contributed by FTC, net of unrealized gain of ₱5.1 billion. The transaction was accounted for similar to a contribution in a joint venture based on Standing Interpretations Committee (SIC) Interpretation 13, *Jointly Controlled Entities-Non-Monetary Contributions by Venturers*, where FTC recognized only that portion of the gain which is attributable to the interests of PMPMI amounting to ₱5.1 billion in 2010. The portion

attributable to FTC is being recognized once the related assets and liabilities are realized, disposed or settled. FTC recognized a gain of about ₱293.0 million each year starting 2011 until 2017 and an outright loss of ₱2.0 billion in 2010, which are included in the “Equity in net earnings” in these periods. Further, as a result of the transfer of selected assets and liabilities, portion of the revaluation increment on FTC’s property, plant and equipment amounting to ₱1.9 billion was transferred to retained earnings.

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

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

	2018	2017
	<i>(In Thousands)</i>	
Current assets	₱28,979,372	₱30,471,572
Noncurrent assets	27,867,259	28,681,824
Current liabilities	9,637,631	16,573,030
Noncurrent liabilities	4,831,841	7,507,626
Equity	42,377,159	35,072,740
Equity interest of the Parent Company	49.6%	49.6%
Share in net assets of the acquire	21,019,071	17,396,079
Acquisition-related fair value adjustments, adjustments relating to differences in accounting policies and others	(8,200,136)	(6,644,844)
Carrying value of investment	₱12,818,935	₱10,751,235

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

	2018	2017	2016
	<i>(In Thousands)</i>		
Revenue	₱145,305,192	₱117,396,976	₱112,429,500
Costs and expenses	(121,412,768)	(105,523,675)	(105,770,205)
Income before income tax	23,892,424	11,873,301	6,659,295
Provision for income tax	(7,099,376)	(3,575,735)	(1,949,921)
Net income	16,793,048	8,297,566	4,709,374
Other comprehensive income	135,435	177,549	124,125
Total comprehensive income	₱16,928,483	₱8,475,115	₱4,833,499
Group’s share of total comprehensive income for the year	₱8,461,462	₱4,366,968	₱2,587,224

Investment in VMC

Details of investment in VMC are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Acquisition cost:		
Balance at beginning of year	₱1,459,768	₱1,400,825
Additions	–	58,943
Balance at end of year	1,459,768	1,459,768
Accumulated equity in net earnings:		
Balance at beginning of year	₱892,194	₱718,190
Equity in net earnings	246,926	173,652
Excess of fair value of net assets of associate over cost of investment	–	352
Balance at end of year	1,139,120	892,194
Share in remeasurement gain on defined benefit plans	(9,295)	862
Balance of convertible notes	58,460	58,460
	₱2,648,053	₱2,411,284

On February 15, 2016, VMC approved the acquisition of its own shares. The sale agreement had been executed on February 18, 2016 and led to the acquisition of 300.0 million treasury shares. This resulted in an increase in the Parent Company's percentage of ownership from 22.5% to 25.1%. On the same date, the Group, through FTC, acquired additional shares of stock of VMC amounting to ₱660.3 million resulting to an increase in the Group's effective ownership in VMC to 30.2%.

On May 23, 2017, portions of the convertible notes amounting to ₱58.94 million were converted to shares of stock of VMC resulting to an increase in the Group's percentage of ownership to 30.9% as of December 31, 2017.

The summarized financial information of VMC as of November 30, 2018 and 2017 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2018	2017
	<i>(In Thousands)</i>	
Current assets	₱3,427,476	₱2,903,212
Noncurrent assets	6,592,729	9,872,331
Current liabilities	2,190,518	1,572,144
Noncurrent liabilities	1,382,714	4,191,601
Equity	6,446,973	7,011,798
Equity interest of the Parent Company	30.9%	30.9%
Share in net assets of the acquire	1,992,115	2,166,645
Fair value adjustments and others	655,938	244,639
Carrying value of investment	₱2,648,053	₱2,411,284

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

	2018	2017	2016
		<i>(In Thousands)</i>	
Revenue	₱6,080,583	₱9,218,976	₱5,195,381
Costs and expenses	(4,949,048)	(8,348,308)	(4,296,953)
Income before income tax	1,131,535	870,668	898,428
Provision for income tax	(332,421)	(289,427)	(249,141)
Net income	799,114	581,241	649,287
Other comprehensive income (loss)	(32,781)	(2,843)	(53)
Total comprehensive income	₱766,333	₱578,398	₱649,234
Group's share of total comprehensive income for the year	₱236,769	₱173,652	₱196,069

Investment in AB HPI

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

On May 30, 2016, the Group, through ABI, purchased 500 shares of stock of AB HPI for a consideration amounting to ₱5.0 million. On November 15, 2016, the Group purchased additional 782,400 common shares out of the proposed increase in the authorized capital stock of AB HPI for a consideration of ₱782.4 million. The Group's subscription to AB HPI represents 50% ownership interest.

In accordance with the Shareholders' Agreement entered into by the Group and Heineken, the Group sold nonmonetary assets, (i.e., inventories, returnable containers and brands), to AB HPI for a total consideration of ₱782.4 million. The nonmonetary assets were sold at their carrying amounts, except for the brands which resulted to a gain from fair valuation amounting to ₱46.3 million.

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

	2018	2017
	<i>(In Thousands)</i>	
Beginning balance/acquisition cost	₱787,400	₱787,400
Accumulated equity in net earnings:		
Balance at the beginning of the year	210,336	787,948
Share in net loss of an associate	(722,839)	(577,612)
Balance at end of year	(512,503)	210,336
Ending balance	₱274,897	₱997,736

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

	2018	2017
	<i>(In Thousands)</i>	
Current assets	₱3,330,048	₱3,564,521
Noncurrent assets	2,190,077	1,538,465
Current liabilities	2,702,540	2,458,799
Noncurrent liabilities	2,276,335	967,236
Equity	541,250	1,676,951
Equity interest of the Parent Company	50%	50%
Share in net assets of the acquire	270,625	838,478
Others	4,272	159,258
Carrying value of investment	₱274,897	₱997,736

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

	2018	2017
	<i>(In Thousands)</i>	
Revenue	₱2,889,832	₱3,249,696
Costs and expenses	(4,335,508)	(4,405,921)
Loss before income tax	1,445,676	1,156,225
Provision for income tax	—	—
Net loss	1,445,676	1,156,225
Other comprehensive loss	—	—
Total comprehensive loss	₱1,445,676	₱1,156,225
Group's share of total comprehensive loss for the year	₱722,838	₱577,612

Investment in APLII

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

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

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

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

The Group recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The deferred revenue amounting to ₱976.2 million allocated to the EDR was presented as “Other deferred revenue” and will be amortized to income over 15 years from date of sale (see Note 20). Amortization amounting to ₱36.5 million was recognized in 2016 (see Note 28). Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

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

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

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

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

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

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

	2018	2017
	<i>(In Thousands)</i>	
Revenue	₱2,752,253	₱2,190,474
Costs and expenses	(2,602,149)	(2,018,549)
Income before income tax	150,104	171,925
Provision for income tax	(34,941)	(35,128)
Net income	115,163	136,797
Other comprehensive income	128,594	(133,356)
Total comprehensive income	₱243,757	₱3,441
Group’s share of total comprehensive income for the year	₱107,253	₱60,191

Investment in ABI Pascual Holdings

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

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

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

The Group determined that its advances to ABI Pascual Foods represents the Group’s long-term interest in ABI Pascual Holdings and its subsidiary that, in substance, form part of the Group’s net investment in the joint venture.

The summarized financial information of ABI Pascual Holdings as of December 31 follows:

	2018	2017
	<i>(In thousands)</i>	
Current assets	₱313,887	₱312,747
Noncurrent assets	1,957	2,385
Current liabilities	266,323	242,714
Noncurrent liabilities	–	4,059
Total equity	49,521	68,359

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

	2018	2017
	<i>(In Thousands)</i>	
Revenue	₱276,630	₱246,833
Costs and expenses	(284,356)	(366,651)
Loss before income tax	(7,726)	(119,818)
Provision for income tax	–	–
Net loss	(7,726)	(119,818)
Other comprehensive income	–	–
Total comprehensive loss	(₱7,726)	(₱119,818)
Group’s share of total comprehensive loss for the year	(₱3,863)	(₱59,909)

Investment in AEPDC

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

On July 5, 2017, the Company subscribed to additional 25,200,000 common shares and 226,800,000 preferred shares from AEPDC's increase in authorized capital stock for a consideration totaling to ₱252.0 million.

On November 20, 2017, the Company made additional capital infusion amounting to ₱370.0 million for the joint venture's initial purchase of land in exchange for 370,000,000 common shares.

In 2018, the Company made additional capital infusion totaling to ₱1.5 billion for the joint venture's project planning and development and direct operating expenses.

Details of the investment in a joint venture as of December 31 are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Beginning balance/acquisition cost	₱672,500	₱20,000
Additional capital infusion during the year	1,503,500	652,500
Accumulated equity in net earnings:		
Balance at the beginning of the year	—	—
Share in net loss of a joint venture*	(49,674)	—
Balance at end of year	(49,674)	—
Ending balance	₱2,126,326	₱672,500

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

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

	2018	2017
	<i>(In thousands)</i>	
Current assets	₱2,685,351	₱486,949
Noncurrent assets	9,720,940	3,508,963
Current liabilities	8,067,595	2,764,311
Noncurrent liabilities	897,227	—
Equity	3,441,469	1,231,601

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

	2018	2017
	<i>(In Thousands)</i>	
Revenue	₱223,134	₱2,007
Costs and expenses	(292,911)	(50,527)
Loss before income tax	(69,777)	(48,520)
Provision for income tax	11,677	7,272
Net loss	(58,100)	(41,248)
Other comprehensive income	—	—
Total comprehensive loss	(₱58,100)	(₱41,248)
Group's share of total comprehensive loss for the year	(₱29,050)	(₱20,624)

Disclosures on Subsidiary with Material Non-controlling Interest

Following is the financial information of PNB, which has material non-controlling interests of 43.53% as of and for the years ended December 31:

	2018	2017	2016
		<i>(In Thousands)</i>	
Accumulated balances of material non-controlling interest	₱47,290,358	₱45,546,934	₱41,080,170
Net income allocated to material non-controlling interest	3,095,918	3,722,621	3,235,013
Total comprehensive income allocated to material non-controlling interest	1,743,424	4,466,764	2,976,343

On February 9, 2013, PNB acquired 100% of the voting common stock of ABC. PNB accounted for the business combination with ABC under the acquisition method of PFRS 3. In the LTG consolidated financial statements, the merger of PNB and ABC and the acquisition of PNB through the Bank Holding Companies are accounted for under the pooling-of-interests method. Thus, the summarized financial information of PNB below is based on the amounts in the consolidated financial statements of PNB prepared under the pooling-of-interests method before the Group's intercompany eliminations.

Statements of Comprehensive Income:

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
		<i>(In Thousands)</i>	
Revenue	₱40,416,175	₱32,217,391	₱29,332,536
Cost of services	(9,784,000)	(6,339,368)	(5,722,738)
General and administrative expenses	(25,301,772)	(22,486,549)	(22,689,205)
Foreign exchange gains - net	942,372	1,676,927	1,486,224
Other income - net	7,344,532	5,733,233	5,799,417
Income before income tax	13,617,307	10,801,634	8,206,234
Provision for income tax	(3,663,744)	(2,314,935)	(1,509,331)
Net income from continuing operations	9,953,563	8,486,699	6,696,903
Net income (loss) from discontinued operations	(219,972)	70,373	685,330
Net income	9,733,591	8,557,072	7,382,233
Other comprehensive income (loss)	(5,728,481)	1,709,495	(594,234)
Total comprehensive income	₱4,005,110	₱10,266,567	₱6,787,999
Net income attributable to:			
Equity holders of the Parent Company	₱6,637,673	₱4,834,451	₱4,147,220
Non-controlling interests	3,095,918	3,722,621	3,235,013
Total comprehensive income attributable to:			
Equity holders of the Parent Company	5,593,952	5,799,803	3,811,656
Non-controlling interests	2,695,099	4,466,764	2,976,343
Dividends declared to non-controlling interests	3,366	35,455	43,209

Balance Sheets:

	2018	2017
	<i>(In Thousands)</i>	
Current assets	₱435,407,693	₱375,392,442
Noncurrent assets	559,295,135	448,155,535
Current liabilities	776,308,797	664,985,426
Noncurrent liabilities	85,859,497	51,413,216
Equity attributable to:		
Equity holders of the Parent Company	129,639,681	104,504,596
Non-controlling interest	2,894,853	2,644,739

Statements of Cash Flows:

	2018	2017	2016
	<i>(In Thousands)</i>		
Operating	₱12,816,916	(₱1,637,026)	₱28,108,324
Investing	(51,680,279)	(2,913,544)	3,482,266
Financing	40,266,286	4,344,472	2,823,720
Net increase (decrease) in cash and cash equivalents	₱1,402,923	(₱206,098)	₱34,414,310

12. Property, Plant and Equipment

December 31, 2018

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Total
	<i>(In Thousands)</i>										
Cost											
Balance at beginning of year	₱17,026,911	₱19,913,315	₱27,511,183	₱64,451,409	₱5,321,740	₱2,167,740	₱3,984,854	₱11,868,428	₱1,011,378	₱24,354,140	₱88,805,549
Additions/transfers (Note 13)	10,121	483,170	902,054	1,395,345	298,272	432,067	242,686	1,399,115	1,368,319	3,740,459	5,135,804
Net increment in appraised value	23,273,320	(72,400)	–	23,200,920	–	–	–	–	–	–	23,200,920
Disposals/transfers/others (Note 28)	122,136	623,440	(51,066)	694,510	1,226,929	(30,058)	(34,904)	(815,005)	(665,859)	(318,897)	375,613
Balance at end of year	40,432,488	20,947,525	28,362,171	89,742,184	6,846,941	2,569,749	4,192,636	12,452,538	1,713,838	27,775,702	117,517,886
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	1,243,373	6,777,467	20,215,622	28,236,462	3,930,595	1,745,325	2,871,627	8,816,307	–	17,363,854	45,600,316
Depreciation and amortization	236,898	530,550	939,478	1,706,926	302,558	133,048	335,641	941,927	–	1,713,174	3,420,100
Disposals/transfers/others (Note 28)	–	(468,542)	(50,423)	(518,965)	38,361	(22,963)	(35,124)	915,469	–	895,743	376,778
Balance at end of year	1,480,271	6,839,475	21,104,677	29,424,423	4,271,514	1,855,409	3,172,144	10,673,702	–	19,972,769	49,397,192
Net Book Value	₱38,952,217	₱14,108,050	₱7,257,494	₱60,317,761	₱2,575,427	₱714,340	₱1,020,492	₱1,778,836	₱1,713,838	₱7,802,933	₱68,120,694

December 31, 2017

	At Appraised Values				At Cost						
	Land and Land Improvements	Plant Buildings and Building Improvements	Machineries and Equipment	Subtotal	Office and Administration Buildings and Improvements	Transportation Equipment	Returnable Containers	Furniture, Fixtures and Other Equipment	Construction in Progress	Subtotal	Total
	<i>(In Thousands)</i>										
Cost											
Balance at beginning of year	₱16,942,174	₱19,564,868	₱26,514,896	₱63,021,938	₱4,799,159	₱1,923,462	₱3,223,720	₱10,901,017	₱206,446	₱21,053,804	₱84,075,742
Additions (Note 13)	13,470	346,206	984,069	1,343,745	236,242	264,006	771,092	826,882	886,359	2,984,581	4,328,326
Disposals/transfers/others (Notes 13 and 28)	71,267	2,241	12,218	85,726	286,339	(19,728)	(9,958)	140,529	(81,427)	315,755	401,481
Balance at end of year	17,026,911	19,913,315	27,511,183	64,451,409	5,321,740	2,167,740	3,984,854	11,868,428	1,011,378	24,354,140	88,805,549
Accumulated Depreciation, Amortization and Impairment Losses											
Balance at beginning of year	1,107,997	6,489,033	19,320,860	26,917,890	3,591,591	1,630,938	2,565,411	8,095,290	—	15,883,230	42,801,120
Depreciation and amortization	135,376	596,887	905,270	1,637,533	298,682	134,009	309,374	801,164	—	1,543,229	3,180,762
Disposals/transfers/others (Notes 13 and 28)	—	(308,453)	(10,508)	(318,961)	40,322	(19,622)	(3,158)	(80,147)	—	(62,605)	(381,566)
Balance at end of year	1,243,373	6,777,467	20,215,622	28,236,462	3,930,595	1,745,325	2,871,627	8,816,307	—	17,363,854	45,600,316
Net Book Value	₱15,783,538	₱13,135,848	₱7,295,561	₱36,214,947	₱1,391,145	₱422,415	₱1,113,227	₱3,052,121	₱1,011,378	₱6,990,286	₱43,205,233

Revaluation of Land and Land Improvements, Plant Buildings and Machineries and Equipment

The corresponding fair values of land and land improvements, plant buildings and building improvements, and machineries and equipment are determined based on valuation performed by Philippine SEC-accredited and independent appraisers. The fair value of the land was determined using the market data approach based on available market evidence and the fair values for land improvements, plant buildings, and machineries and equipment were derived using the depreciated replacement cost. The dates of the latest appraisal valuations were December 31, 2018, 2016 and 2011 (see Note 34). Movements in revaluation increment, net of deferred income tax effect, are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Revaluation increment on the property, plant and equipment, net of deferred income tax effect:		
Balance at beginning of year	₱6,062,880	₱6,802,300
Net revaluation increase	16,737,049	—
Transfer of portion of revaluation increment on property, plant and equipment realized through depreciation and disposal	(739,502)	(739,420)
Balance at end of year	₱22,060,427	₱6,062,880
Attributable to:		
Equity holders of the Company	₱12,689,666	₱3,733,860
Non-controlling interests	9,370,761	2,329,020
	₱22,060,427	₱6,062,880

If land and land improvements, plant buildings and building improvements, and machineries and equipment were measured using the cost model, the carrying amount would be as follows:

	2018	2017
	<i>(In Thousands)</i>	
Cost		
Land and land improvements	₱8,353,580	₱7,381,419
Plant buildings and improvements	16,099,902	14,226,250
Machineries and equipment	33,261,229	29,390,400
	57,714,711	50,998,069
Accumulated depreciation		
Land and land improvements	(3,425,704)	(1,179,491)
Plant buildings and improvements	(10,785,065)	(6,224,962)
Machineries and equipment	(15,223,734)	(19,259,849)
	(29,434,503)	(26,664,302)
	₱28,280,208	₱24,333,767

Depreciation

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

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
	<i>(In Thousands)</i>		
Continuing operations:			
Cost of goods sold and services (Note 24)	₱945,656	₱1,070,108	₱850,324
Selling expenses (Note 25)	321,754	330,508	491,555
General and administrative expenses (Note 26)	2,146,521	1,773,982	1,544,004
Discontinued operations (Note 37)	6,169	6,164	400,468
	₱3,420,100	₱3,180,762	₱3,286,351

As of December 31, 2018 and 2017, the Group's "Construction in progress" under the "Property, plant and equipment" account pertains to AAC's major rehabilitation of plant facilities, which are expected to be completed in 2019, and PNB's construction of building.

Out of the total additions in 2018 and 2017, ₱180.4 million and ₱163.0 million remain to be unpaid as of December 31, 2018 and 2017, respectively, which represent non-cash investing activities.

Certain property and equipment of the Group with carrying amount of ₱98.3 million and ₱9.3 million are temporarily idle as of December 31, 2018 and 2017, respectively.

Borrowing Costs

Unamortized capitalized borrowing costs amounted to ₱11.2 million and ₱11.9 million as of December 31, 2018 and 2017, respectively. The average capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 4.5% in 2015. There was no borrowing cost capitalized in 2018, 2017 and 2016.

13. Investment Properties

Movements of the Group's investment properties are as follows (in thousands):

	December 31, 2018				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱22,461,823	₱10,667,848	₱7,620	₱2,635,507	₱35,772,798
Additions	1,720,164	351,347	–	2,264,255	4,335,766
Disposals/transfers/others	(2,044,344)	378,529	–	(720,188)	(2,386,003)
Balance at end of year	22,137,643	11,397,724	7,620	4,179,574	37,722,561
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,393,857	3,480,528	7,620	–	6,882,005
Depreciation	–	414,160	–	–	414,160
Provision for impairment losses	–	13,221	–	–	13,221
Disposals/transfers/others	164,329	(70,055)	–	–	94,274
Balance at end of year	3,558,186	3,837,854	7,620	–	7,403,660
Net Book Value	₱18,579,455	₱7,559,870	₱–	₱4,179,574	₱30,318,901

	December 31, 2017				
	Land	Buildings and Improvements	Residential Unit	Construction in Progress	Total
Cost					
Balance at beginning of year	₱21,989,899	₱10,514,268	₱7,620	₱2,212,139	₱34,723,926
Additions	402,432	396,413	-	1,619,527	2,418,372
Transfers	69,492	(242,833)	-	(1,196,159)	(1,369,500)
Balance at end of year	22,461,823	10,667,848	7,620	2,635,507	35,772,798
Accumulated Depreciation and Impairment Losses					
Balance at beginning of year	3,383,693	3,115,240	7,620	-	6,506,553
Depreciation/transfers	-	344,999	-	-	344,999
Provision for impairment losses	10,164	20,289	-	-	30,453
Balance at end of year	3,393,857	3,480,528	7,620	-	6,882,005
Net Book Value	₱19,067,966	₱7,187,320	₱-	₱2,635,507	₱28,890,793

The Group's investment properties consist of parcels of land for appreciation, residential and condominium units for lease and for sale, and real properties foreclosed or acquired in settlement of loans which are all valued at cost. Foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱307.8 million and ₱115.9 million as of December 31, 2018 and 2017, respectively. The Group is exerting continuing efforts to dispose these properties.

In 2016, the Group reclassified certain properties from "property, plant and equipment" to "Investment property" with aggregate carrying amount of ₱4.7 billion. These properties mainly consist of the office spaces in the Allied Bank Center in Makati City leased out and land in Buendia, Makati City being held for future development.

As of December 31, 2018 and 2017, the Group's "Construction in progress" under the "Investment property" account pertains to the construction of building intended for leasing and which is expected to be completed in 2019.

Fair Values of Investment Properties

Below are the fair values of the investment properties as of December 31, 2018, which were determined by professionally qualified, accredited and independent appraisers based on market values (*in thousands*):

Land	₱37,007,466
Buildings and improvements	16,935,051
	<u>₱53,942,517</u>

The fair value of investment properties of the Group was determined using acceptable valuation approaches and both observable and unobservable inputs (see Note 34).

Rent Income and Direct Operating Expenses of Investment Properties

Rental income and direct operating expenses arising from the investment properties of property development segment amounted to ₱1,494.7 million and ₱373.6 million in 2018, ₱1,388.0 million and ₱308.4 million in 2017 and ₱1,278.4 million and ₱253.8 million in 2016, respectively (see Note 24). Rental income of the banking segment on its investment properties is presented under "Other income (charges)" (see Note 28).

Depreciation of investment properties charged to operations follows:

	2018	2017	2016
	<i>(In Thousands)</i>		
Cost of rental income (Note 24)	₱336,779	₱184,504	₱137,457
General and administrative expenses (Note 26)	77,381	160,495	123,570
	₱414,160	₱344,999	₱261,027

14. Other Noncurrent Assets

Other noncurrent assets consist of:

	2018	2017
	<i>(In Thousands)</i>	
Software costs	₱2,306,565	₱2,288,924
Advances to suppliers	1,838,352	1,012,209
Prepaid excise taxes (Note 38)	797,388	—
Deferred charges	558,225	573,743
Checks for clearing	499,792	285,676
Deferred input VAT	347,974	324,666
Refundable and security deposits	308,237	231,292
Distribution network access	294,994	286,751
Net retirement plan assets (Note 23)	280,464	273,710
Goodwill	163,735	163,735
Chattel properties - net	109,265	149,347
Deposit for purchase of land	—	700,000
Other investments	—	26,309
Others - net	225,301	350,841
	7,730,292	6,667,203
Allowance for probable losses	(1,178,970)	(954,456)
	₱6,551,322	₱5,712,747

a. Movements in software costs are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Balance at beginning of year	₱2,288,924	₱1,448,022
Additions	719,376	1,113,038
Amortization (Note 26)	(375,042)	(195,962)
Other adjustments	(326,693)	(76,174)
Balance at end of year	₱2,306,565	₱2,288,924

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

- b. Deposit for purchase of land pertains to the deposit and earnest money paid by FTC for the acquired properties amounting to ₱500.0 million and ₱200.0 million, respectively.
- c. The distribution network access, which was acquired on March 31, 2017, covers APB Myanmar's relations with Myanmar Distribution Group, its exclusive distributor.

- d. In 2018, the Group reclassified the prepaid excise taxes of TDI from “Other current assets” to “Other noncurrent assets” in light of the Court of Tax Appeals decision dated February 7, 2019.
- e. Deferred input VAT arises mainly from the acquisition of capital goods.
- f. Refundable deposits consist principally of amounts paid by the property development segment to its utility providers for service applications and guarantee deposit to Makati Commercial Estate Association for plans processing, monitoring fee and development charge of the Group’s projects. These refundable deposits amounting to ₱308.2 million and ₱231.3 million as of December 31, 2018 and 2017, respectively, will be refunded upon termination of the service contract and completion of the projects’ construction.
- g. The Group recognized goodwill which pertains mainly to ADI and Eton amounting to ₱144.7 million and ₱19.0 million, respectively. As of December 31, 2018 and 2017, the Group performed its annual impairment testing of goodwill related to its CGUs, ADI and Eton.

The recoverable amount of ADI is determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The projected cash flows have been updated to reflect the increase in demand for products based on TDI’s projected sales volume increase, selling price increase and cost and expenses increase. The pre-tax discount rate applied to the cash flow projection is 9.7% and 11.2% in 2018 and 2017, respectively. The growth rate used to extrapolate the cash flows of until beyond the five-year period is 6.2% as of December 31, 2018 and 4.9% as of December 31, 2017. Management assessed that this growth rate is comparable with the average growth for the industry in which ADI operates. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of ADI to exceed its recoverable amount, which is based on value-in-use. As of December 31, 2018 and 2017, the recoverable amount of ADI is higher than its carrying value.

- h. As of December 31, 2018 and 2017, accumulated depreciation on chattel mortgage properties acquired by PNB in settlement of loans amounted to ₱105.9 million and ₱96.1 million, respectively.
- i. The Group has receivable from OPII, which was deconsolidated upon adoption of PFRS 10.

As of December 31, 2018 and 2017, receivable from SPV represents fully provisioned subordinated notes received by PNB from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of the first pool and second pool of its NPAs in December 2006 and March 2007, respectively. The asset sale and purchase agreements (ASPA) between PNB, Golden Dragon Star Equities and OPII for the sale of the NPAs were executed on December 19, 2006. OPII was specifically organized to hold, manage, service and resolve the non-performing assets sold to Golden Dragon Star Equities. OPII has been financed through the issuance of equity securities and subordinated debt securities. Collections from OPII in 2016 amounting to ₱500.0 million are recorded under “Other income (charges)” (see Note 28).

15. Deposit Liabilities

	2018	2017
	<i>(In Thousands)</i>	
Demand	₱153,065,163	₱125,581,889
Savings	387,882,302	341,182,647
Time	178,613,954	160,915,991
	719,561,419	627,680,527
Presented as noncurrent	(47,219,123)	(39,286,226)
	₱672,342,296	₱588,394,301

Of the total deposit liabilities of the Group, ₱28.6 billion and ₱28.9 billion are non-interest bearing as of December 31, 2018 and 2017, respectively. Annual interest rates of the deposit liabilities follow:

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

Under existing BSP regulations, non-FCDU deposit liabilities of PNB and PNB Savings Bank are subject to reserves equivalent to 18.00% and 8.00%, respectively. As of December 31, 2018 and 2017, available reserves booked under “Due from BSP” amounted to ₱101.0 billion and ₱99.3 billion, respectively (see Note 5).

Long-term Negotiable Certificates of Time Deposits

Time deposit of the Group includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs):

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

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.
- The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

- Unless earlier redeemed, the LTNCDs shall be redeemed by PNB on maturity date at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.
- The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of PNB, enforceable according to the related Terms and Conditions, and shall at all times rank paripassu and without any preference or priority among themselves and at least paripassu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.
- Subject to the “Events of Default” in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from PNB to the extent of his holdings in the CDs. However, PNB may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

- f. The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.5 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.
- g. Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by PNB arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities presented under “Cost of banking services” amounted to ₱7.7 billion, ₱4.8 billion and ₱3.8 billion in 2018, 2017 and 2016, respectively (see Note 24).

In 2018, 2017 and 2016, interest expense on LTNCDs of the Group includes amortization of transaction costs amounting to ₱39.5 million, ₱32.1 million and ₱25.3 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱91.8 million and ₱131.0 million as of December 31, 2018 and 2017, respectively.

16. Financial Liabilities at Fair Value through Profit or Loss (FVTPL)

Financial liabilities at fair value through profit or loss consist of derivatives liabilities amounting to ₱470.6 million and ₱343.5 million as of December 31, 2018 and 2017 respectively (see Notes 21 and 33).

17. Bills and Acceptances Payable

Bills and acceptances payable consist of:

	2018	2017
	<i>(In Thousands)</i>	
Bills payable to:		
BSP and local banks (Note 22)	₱67,792,569	₱41,435,696
Foreign banks	521,405	157,849
Others	3,000	91,255
	68,316,974	41,684,800
Acceptances outstanding	1,765,861	2,231,887
	70,082,835	43,916,687
Presented as noncurrent	(9,533,590)	(7,282,350)
	₱60,549,245	₱36,634,337

Annual interest rates are shown below:

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

PNB’s bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (see Note 8).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing, with carrying value of ₱7.4 billion as of December 31, 2016 and was preterminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

- The lenders agree to provide PNB with a term loan facility of up to US\$150.00 million (₱7.5 billion). PNB must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.
- The borrowing bears interest at 1.38% over USD LIBOR. PNB may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.
- PNB shall ensure that so long as any amount of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.
- PNB may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of US\$1.0 million (₱49.7 million), subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2018, PNB has complied with the above debt covenants.

As of December 31, 2018 and 2017, the unamortized transaction cost of the syndicated borrowing amounted to ₱32.7 million.

As of December 31, 2018, bills payable with a carrying amount of ₱48.0 billion is secured by a pledge of certain financial assets at FVTOCI with carrying value and fair value of ₱21.5 billion and financial assets at amortized cost with carrying value and fair value of ₱36.3 billion and ₱38.5 billion, respectively (see Note 7).

As of December 31, 2017, bills payable with a carrying amount of ₱35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱26.7 billion and HTM investments with carrying value and fair value of ₱16.5 billion and ₱17.8 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 ₱0.7 billion in 2018, ₱0.7 billion in 2017 and ₱1.0 billion in 2016 (see Note 24).

18. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	2018	2017
	<i>(In Thousands)</i>	
Trade payables	₱11,622,664	₱11,895,949
Nontrade payables	608,134	776,558
Accrued expenses:		
Other benefits - monetary value of leave credits	1,648,520	1,637,877
Purchase of materials and supplies and others	1,617,040	1,266,078
Interest	1,529,514	632,907
Project development costs	1,097,299	707,328
Retention payable	924,505	799,105
Advertising and promotional expenses	804,477	484,827
Taxes and licenses	784,500	861,390
PDIC insurance premiums	716,041	660,290
Rent and utilities payable	365,446	1,165,156
Information technology-related expenses	145,206	204,666
Due to government agencies	107,104	464,911
Output value added tax	113,898	66,500
Other payables	432,134	400,430
	₱22,516,482	₱22,023,972

Trade Payables

Trade payables are non-interest bearing and are normally settled on 30 to 60 days terms. Trade payables arise mostly from trade purchases of the banking group and purchases of inventories, which include raw materials and indirect materials (i.e., packaging materials) and supplies, for use in manufacturing and other operations.

Trade payables also include importation charges related to raw materials purchases, as well as occasional acquisitions of production equipment and spare parts.

Accrued Project Development Costs

Accrued project development costs represent costs incurred by the Property Development segment in the development and construction of real estate projects.

Accrued Expenses

Other accrued expenses consist of accruals for commission, outside services, fuel and oil, and professional fees which are individually not significant as to amounts.

Retention Payable

Retention payable is the amount deducted from the total billing of the contractor which will be paid upon completion of the contracted services of Eton.

Other Payables

Other payables include cash bond payable to haulers as security for inventories and payable other than to suppliers of raw materials which include, but not limited to advertising and freight companies.

19. Short-term and Long-term Debts

Short-term Debts

As of December 31, 2018 and 2017, outstanding unsecured short-term debts amounted to ₱2,050.0 million and ₱1,550.0 million, respectively. The loans are subject to annual interest rates ranging from 3.3% to 7.0% in 2018 and 2017, are payable lump-sum on various dates within one year and subject to renewal upon agreement by the Group and counterparty banks. In 2015, the Group obtained additional short-term loans from BDO amounting to ₱1.1 billion which are payable in lump-sum after 60 days.

Long-term Debts

	2018	2017
	<i>(In Thousands)</i>	
Bonds payable	₱15,661,372	₱—
Unsecured term loan	2,893,952	1,475,466
Notes payable	90,829	114,681
	18,646,153	1,590,147
Current portion	(90,829)	(114,681)
	₱18,555,324	₱1,475,466

PNB's Bonds Payable

4.25% USD 300 Million Fixed Rate Medium Term Note

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

As of December 31, 2018, the unamortized transaction cost of bonds payable amounted to ₱116.3 million. Amortization of transaction costs amounting to ₱12.2 million was charged to 'Interest expenses - bonds payable' in the consolidated statement of income (Note 19).

PNB's Subordinated Debts

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, PNB's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.05%.

Significant terms and conditions of the subordinated notes follow:

- (1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.
- (2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of PNB to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% ₱6.5 Billion Subordinated Notes

On June 15, 2011, PNB's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

- (1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.
- (2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by PNB arising under or in connection with the 2011 Notes.

On June 16, 2016, PNB exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

In 2018, 2017 and 2016, amortization of transaction costs amounting to nil, ₱2.2 million and ₱11.4 million, respectively, were charged to "Cost of banking services" in the consolidated statements of income (see Note 24).

Unsecured term loans of Eton

On January 28, 2013, Eton entered into an unsecured term loan agreement with BDO amounting to ₱2.0 billion to finance the construction of Eton projects. The term loan bears a nominal interest rate of 5.53% and will mature on January 26, 2018. Principal repayments will start one year from the date of availment and are due annually while interest payments are due quarterly starting April 28, 2014. Effective on October 28, 2013, Eton and BDO agreed to the new interest rate of 4.75%.

In 2016, Eton entered into an unsecured term loan agreement with Asia United Bank (AUB) amounting to ₱1.5 billion, to finance the construction of Eton's projects. The term loan bears a nominal interest rate of 5% and will mature on September 28, 2023. Principal repayments will commence two years from the date of availment and are due quarterly while interest payments are due quarterly starting December 28, 2016.

In 2018, Parent Company entered into an unsecured term loan agreement with Bank of the Philippine Islands (BPI) amounting to ₱5.0 billion to finance the construction of the Eton's projects. On July 31, 2018, ₱0.5 billion was initially drawn and an additional ₱1.0 billion on September 26, 2018. The term loan with BPI has a nominal rate of 6.8% and 7.9% for the first and second drawdown, respectively. Principal repayments will commence three years from the date of initial borrowing, while interest payments are due quarterly.

Notes payable of Eton

Notes payable include various notes from BDO which arose from the assignment of Eton's contract receivables on a with recourse basis in 2013 and 2012 (see Note 8). These notes bear interest based on Philippine Dealing System Treasury Fixing (PDSTF) rate for one year plus 1.5% net of gross receipts

tax. In 2016 and 2015, interest rates ranged from 5.10% to 6.66%, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first. In 2016, the outstanding notes payable were fully paid by Eton.

Interest on loans payable from general borrowings capitalized as part of real estate inventories amounted to ₱61.9 million in 2015 wherein capitalization rate was 4.5%. The Group stopped capitalizing interest on loans payable as construction of projects involved in the loans are substantially done as of December 31, 2016.

Finance costs

Interest recognized on short-term and long-term debts, except for subordinated debts, are presented under “Finance costs” in the consolidated statements of income (see Note 27). Interest costs from subordinated debts are included in the “Cost of banking services” (see Note 24).

Compliance with debt covenants

As of December 31, 2018 and 2017, the Group has complied with the financial and non-financial covenants of its long-term debts.

20. Other Liabilities

	2018	2017
	<i>(In Thousands)</i>	
Managers’ checks and demand drafts outstanding	₱2,610,460	₱2,345,787
Bills purchased - contra (Note 8)	1,396,318	1,323,896
Customers’ deposits	1,115,106	987,862
Other dormant credits	926,566	1,078,052
Due to other banks	1,319,838	1,212,436
Payable to landowners	911,826	1,505,191
Deposit on lease contracts	823,968	890,736
Other deferred revenue (Note 12)	857,493	866,473
Provisions (Note 38)	715,776	969,107
Payment order payable	632,477	—
Due to Treasurer of the Philippines	571,235	574,261
Withholding taxes payable	513,136	283,471
Tenants’ rental deposits	1,026,379	452,372
Miscellaneous tax securities	216,165	295,250
Advance rentals	104,566	51,786
Margin deposits and cash letters of credit	44,383	55,058
Insurance contract liabilities	—	4,929,392
Reserve for unearned premiums	—	1,273,279
Others	695,078	790,792
	14,480,770	19,885,201
Presented as noncurrent	(5,864,593)	(4,718,832)
	₱8,616,177	₱15,166,369

Payables to Landowners

In various dates in 2014, Eton executed a ₱1,061.2 million promissory note, subject to interest rate of PDSTF 3 years +0.50%, to various landowners in relation to its purchase of land located in Laguna with total purchase price of ₱1.3 billion. In June 2017, the payment of the various promissory notes were extended for another three years.

Interest expense recognized related to these promissory notes amounted to ₱65.9 million, ₱100.5 million and ₱180.7 million in 2018, 2017 and 2016, respectively, net of capitalized portion amounting to ₱13.5 million in 2018 and 2017 and nil in 2016 (see Notes 12, 13 and 27).

Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account includes the excess of collections over the recognized receivables amounting to ₱1.1 billion and ₱1.0 billion as of December 31, 2018 and 2017, respectively.

Deposits and Other Deferred Credits

Other liabilities of the property development segment include tenants' rental deposits, advance rentals and other deferred credits. Security deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Deferred credits represent the excess of the principal amount of the security deposits over its fair value. Amortization of deferred credits is included in "Rental income" in the consolidated statements of income (see Note 14).

Banking Segment Liabilities

Other liabilities of the banking segment include insurance contract liabilities, accounts payable, bills purchased - contra, managers' checks and demand drafts outstanding, margin deposits and cash letters of credit.

21. Derivative Financial Instruments

The tables in the next page show the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities (included under "Financial assets and liabilities at FVTPL"), together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2018 and 2017 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	December 31, 2018				December 31, 2017			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
<i>(In Thousands)</i>								
Freestanding derivatives:								
Currency forwards								
BUY:								
USD	₱1,710	₱97,106	53.11	482,974	₱11,347	₱87,446	50.44	573,545
JPY	24,985	16	0.01	6,018,002	8,413	44,371	0.01	16,555,042
HKD	874	36	0.13	219,355	1,548	102	0.13	211,050
CNY	33	—	0.14	1,000	—	—	—	—
GBP	211	—	1.26	1,100	72	—	1.34	518
EUR	60,822	74,001	1.15	385,712	98	—	1.19	3,328
CAD	—	—	—	—	108	—	0.78	1,258
SGD	—	—	—	—	3	—	0.75	50
SELL:								
USD	119,480	2,965	52.98	690,340	222,225	4,382	50.44	680,164
CAD	1,365	—	0.75	2,005	—	328	0.79	2,705
GBP	—	428	1.27	3,700	142	857	1.34	6,560
CHF	-7	—	0.99	200	28	—	1.02	200

(Forward)

	December 31, 2018				December 31, 2017			
	Assets	Liabilities	Average Forward Rate	Notional Amount*	Assets	Liabilities	Average Forward Rate	Notional Amount*
				(In Thousands)				
HKD	P536	P51,122	P50.13	P5276,171	P5102	P5207	P50.13	P539,059
EUR	—	432	1.14	3,618	—	891	1.19	2,990
JPY	-91	9,469	0.01	1,121,000	33,105	529	0.01	6,766,560
SGD	—	14	0.73	200				
AUD	72	—	0.71	500				
NZD	—	—	—	—	13	—	0.71	150
Interest rate swaps	307,089	284,959	—	—	230,842	204,409		
Warrants	57,853	—	—	—	54,938	—		
	P574,628	P470,548			P562,984	P343,522		

* The notional amounts pertain to the original currency except for the embedded derivatives, which represent the equivalent to USD amount.

- As of December 31, 2018 and 2017, PNB holds 275,075 shares and 306,405 shares of ROP Warrants Series B1 at their fair value of US\$1.1million (P52.58 million) and US\$1.1 million (P54.9 million), respectively.
- The table below shows the rollforward analysis of net derivatives assets (liabilities):

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

* Presented as part of "Foreign exchange gains".

** Presented as part of "Trading and investment securities gains-net"

The changes in fair value of the derivatives are included in "Trading and investments securities gains" presented as part of "Banking revenues" in the consolidated statements of income (see Note 24).

22. Related Party Transactions

The Company has transacted with its subsidiaries, associates and other related parties as follows:

Parent Company, Subsidiaries, Associates and Joint Ventures	Entities Under Common Control
Parent Company	Ascot Holdings, Inc.
Tangent	Pol Holdings, Inc.
	Sierra Holdings & Equities, Inc.
	Grand Cargo and Warehousing Services., Inc.
Subsidiaries	Basic Holdings Corporation
TDI and Subsidiaries	Foremost Farms Inc.
ADI	Grandspace Development Corp.
AAC	Himmel Industries Inc.
TBI	Lapu Lapu Packaging
ABI and Subsidiaries	Lucky Travel Corporation
Agua Vida Systems, Inc.	Philippine Airlines, Inc.
Interbev	Rapid Movers & Forwarders Co. Inc.
Waterich	Upright Profits Ltd.
Packageworld	Dyzum Distillery Inc.
AB Nutribev	Heritage Holdings Corp.
Asia Pacific Beverage Pte Ltd	Maxell Holdings, Corp.
Asia Pacific Beverage Myanmar Pte Ltd	Networks Holdings & Equities, Inc.
FTC	Cube Factor Holdings, Inc.
Shareholdings	Trustmark Holdings Corporation
Saturn	Polima International Limited
Paramount and Subsidiaries	Cosmic Holdings Corp.
Eton	Negros Biochem Corporation
BCI	Grandway Konstruct, Inc.
ECI	Harmonic Holdings Corp.
FHI	Proton Realty & Development Corporation
EPMC	Billings Investments Limited
Bank Holding Companies:	Step Dragon Co. Limited
Allmark Holdings Corp.	High Above Properties Ltd.
Dunmore Development Corp.	Penick Group Limited
Kenrock Holdings Corp.	In Shape Group Ltd.
Leadway Holdings, Inc.	Hibersham Assets Ltd.
Multiple Star Holdings Corp.	Orient Legend Developments Ltd.
Pioneer Holdings & Equities, Inc.	Complete Best Development Ltd.
Donfar Management Ltd.	Cormack Investments Ltd
Fast Return Enterprises Ltd.	Link Great International Ltd.
Mavelstone International Ltd.	Bright Able Holdings Ltd.
Uttermost Success, Ltd.	
Ivory Holdings, Inc.	
Merit Holdings & Equities Corp.	
True Success Profits Ltd.	
Key Landmark Investments Ltd.	
Fragile Touch Investments Ltd.	
Caravan Holdings, Corp.	
Solar Holdings Corp.	
All Seasons Realty Corp.	
Dynaworld Holdings Inc.	
Fil-Care Holdings Inc.	
Kentwood Development Corp.	
La Vida Development Corp.	
Profound Holdings Inc.	
Purple Crystal Holdings, Inc.	
Safeway Holdings & Equities Inc.	
Society Holdings Corp.	
Total Holdings Corp.	
PNB and Subsidiaries	
Mabuhay Global Pte. Ltd.	
Mabuhay Digital Philippines, Inc.	
Mabuhay Digital Technologies, Inc.	
Associates	
PMFTC	
VMC	
APLII	
AB HPI	
Joint Ventures	
ABI Pascual Holdings	
ABI Pascual Foods	
AEPDC	

The consolidated statements of income include the following revenue and other income-related (costs and other expenses) account balances arising from transactions with related parties:

	Nature	2018	2017	2016
			(In Thousands)	
Associates	Dividend income	₱6,461,118	₱4,086,596	₱2,555,576
	Purchases of inventories	(624,145)	(971,081)	(1,793,767)
	Sales	629,886	1,094,616	423,335
	Leases	35,100	35,100	4,388
Entities Under Common Control	Banking revenue - interest on loans and receivables	810,967	609,817	388,599
	Sales of consumer products	25,578	28,865	26,752
	Interest income on loans and advances	36,893	18,588	12,853
	Rent income	33,857	32,179	30,647
	Other income	221,417	124,894	150,599
	Freight and handling	(12,258)	(6,937)	(15,004)
	Purchases of inventories	(3,769)	(9,747)	(123,426)
	Cost of banking services - interest expense on deposit liabilities	(189,801)	(75,798)	(25,807)
Entities Under Common Control	Cost of goods sold and services	(1,442)	(41,485)	(38,901)
	Management and professional fees	(549,058)	(566,937)	(263,142)
	Outside services	(71,874)	(52,215)	(62,865)
	Rent expense	(23,721)	(53,361)	(27,890)
	Advertising expense	(16,136)	(12,329)	—
Key Management	Short-term employee benefits	(707,500)	(667,920)	(636,114)
	Post-employment benefits	(77,652)	(77,651)	(72,891)

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

Financial Statement Account		Terms and Conditions	Amount/Volume		Outstanding Balance	
			2018	2017	2018	2017
(In Thousands)						
Parent Company	Due to related parties	On demand; non-interest bearing	P–	P–	(P15,325)	(P41,975)
	Due from related parties	On demand; non-interest bearing	–	189,000	509,000	509,000
Associates	Other receivables - dividends	Payable monthly	6,461,118	4,086,596	513,610	513,610
	Trade receivables	- do -	629,886	1,094,616	800,524	861,794
	Nontrade receivables	- do -	4,314	–	137,005	132,691
	Account payable and other liabilities	30 to 60 days terms; non-interest bearing	(624,145)	(971,081)	(398,177)	(352,649)
		Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments				
Entities Under Common Control	Finance receivables		810,967	609,817	29,960,818	23,881,936
	Trade receivables	- do -	25,578	28,865	18,396	7,743
	Other receivables	- do -	221,417	124,894	16,730	28,594
	Due from related parties	On demand; non-interest bearing	(677)	(83,519)	1,519,632	1,519,625
	Advances to suppliers	- do -	(1,442)	(26,742)	4,110	–
		With annual rates ranging from 0.38% to 1.73% and maturity ranging from 30 days to one year				
	Deposit liabilities		(29,550,765)	(5,851,911)	16,054,153	(13,496,612)
	Account payable and other liabilities	30 to 90 days terms; non-interest bearing	(7,816)	(76,848)	(295,670)	(343,190)
	Due to related parties	On demand; non-interest bearing	(22,301)	(22,620)	(64,874)	(14,867)
	Other payables	30 to 90 days terms; non-interest bearing	–	(6,213)	–	–

As of December 31, 2018 and 2017, the outstanding related party balances are unsecured and settlement occurs in cash, unless otherwise indicated. The Group has not recorded any impairment of receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related parties and the market in which these related parties operate.

Other terms and conditions related to the above related party balances and transactions are as follows:

Transactions with Tangent, parent company

- On March 13, 2018 and March 14, 2017, LTG declared cash dividends of ₱0.20 and ₱0.18 per share to all stockholders of record as of March 28, 2018 and March 29, 2017, respectively, of which ₱1.6 billion in 2018 and ₱1.4 billion in 2017 were paid to Tangent.

Transactions with Associates

- Dividend income from PMFTC amounted to ₱6.5 billion in 2018 and ₱4.1 billion in 2017 (see Note 11).
- The Group purchases raw materials such as raw and refined sugar and molasses from VMC.
- ABI entered into an operating lease agreement with AB HPI to lease portions of its two breweries, in Cabuyao, Laguna and El Salvador, Misamis Oriental, subject to the terms and conditions of an asset lease agreement signed last November 15, 2016. The lease has a fixed yearly increase as specified in the contract. As of December 31, 2018 and 2017, the related rent receivable for the lease of land amounted to ₱74.6 million and ₱35.1 million, respectively.
- ABI sold inventories to AB HPI aside from the nonmonetary assets sold on November 15, 2016, including work in progress, amounting to ₱423.3 million. In 2018 and 2017, ABI rendered services in favor of ABHP related to supplies, both imported and locally-purchased, advertising expense, promotions, professional fees, engineering fee and shared expenses in the plant.

Transactions with Entities under Common Control

- Due to related parties include cash advances provided to the Group to support its working capital requirements.
- Several subsidiaries of the Group entered into management services agreements with Basic Holdings Corporation for certain considerations. Management fees are recorded under “Outside services” in “Cost of goods sold” and “Professional fees” in the “General and administrative expenses”.
- The property development segment purchases parcels of land from other related parties for use in its various projects.
- Several entities under common control maintain peso and foreign currency denominated deposits and short-term and long-term loans with PNB. Interest income and financing charges related to these transactions are reported under “Banking revenue” and “Cost of banking services”, respectively (see Note 24).

23. Retirement Benefits

The Group has funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. As of December 31, 2017 and 2016, the Group is in compliance with Article 287 of the Labor Code, as amended by Republic Act No. 7641.

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

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

The following tables summarize the components of net retirement plan assets and net retirement benefits liability recognized in the consolidated balance sheets, the net benefit expenses recognized in the consolidated statements of income and the remeasurement losses (gains) recognized in consolidated statements of comprehensive income.

Net retirement plan assets:

	2018			2017			2016		
	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets	Defined Benefit Obligations	Fair Value of Plan Assets	Net Retirement Plan Assets
	<i>(In Thousands)</i>								
Beginning balance	₱233,740	(₱507,450)	(₱273,710)	₱228,448	(₱505,318)	(₱276,870)	₱161,701	(₱417,417)	(₱255,716)
Change in status of retirement plan	–	–	–	–	–	–	96,347	(82,267)	14,080
Net retirement benefits expense (income) in profit or loss:									
Current service cost	18,885	–	18,885	18,376	–	18,376	17,832	–	17,832
Net interest cost	8,549	(23,948)	(15,399)	7,581	(21,823)	(14,242)	9,126	(21,674)	(12,548)
	27,434	(23,948)	3,486	25,957	(21,823)	4,134	26,958	(21,674)	5,284
Contributions	–	(1,733)	(1,733)	–	(1,200)	(1,200)	–	(2,252)	(2,252)
Benefits paid	(27,160)	27,160	–	(10,487)	10,487	–	(2,820)	2,820	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	(27,330)	–	(27,330)	(8,250)	–	(8,250)	(38,796)	–	(38,796)
Demographic assumptions	–	–	–	–	–	–	(851)	–	(851)
Experience adjustments	(5,654)	24,477	18,823	(1,928)	10,404	8,476	(14,091)	15,472	1,381
	(32,984)	24,477	(8,507)	(10,178)	10,404	226	(53,738)	15,472	(38,266)
Ending balance	₱201,030	(₱481,494)	(₱280,464)	₱233,740	(₱507,450)	(₱273,710)	₱228,448	(₱505,318)	(₱276,870)

Net retirement benefits liabilities:

	2018			2017			2016		
	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits	Defined Benefit Obligations	Fair Value of Plan Assets	Accrued Retirement Benefits
	<i>(In Thousands)</i>								
Beginning balance	₱9,469,170	(₱7,263,941)	₱2,205,229	₱10,193,817	(₱6,294,475)	₱3,899,342	₱9,666,274	(₱5,765,348)	₱3,900,926
Change in status of retirement plan	–	–	–	–	–	–	(96,347)	82,267	(14,080)
Net retirement benefits cost in profit or loss:									
Current service cost	662,867	–	662,867	756,172	–	756,172	701,627	–	701,627
Net interest cost	361,569	(255,638)	105,931	435,361	(234,088)	201,273	377,343	(190,977)	186,366
Past service cost	361,144	–	361,144	–	–	–	–	–	–
	1,385,580	(255,638)	1,129,942	1,191,533	(234,088)	957,445	1,078,970	(190,977)	887,993
Contributions	–	(753,351)	(753,351)	–	(1,472,899)	(1,472,899)	–	(1,123,041)	(1,123,041)
Benefits paid from plan assets	(613,540)	613,540	–	(584,444)	584,444	–	(728,330)	650,142	(78,188)
Benefits paid directly from book reserves	(12)	–	(12)	–	–	–	–	–	–
Remeasurement losses (gains) in other comprehensive income - actuarial changes arising from changes in:									
Financial assumptions	(1,079,920)	–	(1,079,920)	(330,733)	–	(330,733)	302,114	–	302,114
Demographic assumptions	(55,844)	–	(55,844)	(682,083)	–	(682,083)	–	–	–
Experience adjustments	92,438	97,719	190,157	(318,920)	153,077	(165,843)	(28,864)	52,482	23,618
	(1,043,326)	97,719	(945,607)	(1,331,736)	153,077	(1,178,659)	273,250	52,482	325,732
Ending balance	₱9,197,872	(₱7,561,671)	₱1,636,201	₱9,469,170	(₱7,263,941)	₱2,205,229	₱10,193,817	(₱6,294,475)	₱3,899,342

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

	2018	2017
	<i>(In Thousands)</i>	
Cash and cash equivalents	₱1,138,054	₱2,231,422
Receivables	2,266,478	1,927,174
Equity investments:		
Financial institutions	526,927	448,357
Other	332,518	412,674
Debt investments:		
Investment in private debt securities	2,380,927	—
Investments in government securities	1,369,171	2,731,468
Others	29,090	20,296
Fair value of plan assets	₱8,043,165	₱7,771,391

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

	2018	2017
Cash and cash equivalents	14%	29%
Receivables	28%	25%
Equity investments	11%	11%
Debt investments	47%	35%
Fair value of plan assets	100%	100%

The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans. The plan assets have diverse investments and do not have concentration risk.

The Group's defined pension plan are funded through the contributions made by the Group to the trust.

The principal assumptions used in determining pension benefit obligations for the Group's plans as of January 1 are shown below:

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

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

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations as of the end of the reporting period, assuming all other assumptions were held constant (*in thousands*):

	2018		2017	
	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations	Change in rate	Increase (Decrease) in Present Value of Defined Benefit Obligations
Discount rates	0.50%	(₱442,591)	+0.5%	(₱486,672)
	-0.50%	493,225	-0.5%	604,116
Future salary increases	1.00%	520,535	+1.0%	640,688
	-1.00%	(473,867)	-1.0%	(517,408)

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1% increment in salary increase rate, 0.5% decrement in the discount rate and a 10% improvement in the employee turnover rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1% decrement in salary increase rate, 0.5% increment in the discount rate and a 10% increase in the employee turnover rate but with reverse impact.

The Group employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan asset of the Group is allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's failure to contribute in accordance with its general funding strategy.

Shown below is the maturity analysis of the undiscounted benefit payments of the Group (*in thousands*):

	2018	2017
One year and less	₱1,104,046	₱1,016,792
More than one year up to five years	4,295,709	3,644,928
More than five years up to 10 years	5,092,120	4,758,391
More than 10 years up to 15 years	4,077,971	4,278,443
More than 15 years	41,143,623	46,775,963

The Group expects to contribute ₱1.4 billion to the defined benefit pension plan in 2018. The average duration of the defined benefit obligations at the end of the reporting period range from 16.5 to 27 years as of December 31, 2018 and 15 to 24 years as of December 31, 2017.

Transactions with Retirement Plans

Management of the retirement funds of the banking segment is handled by the PNB Trust Banking Group (TBG). As of December 31, 2018 and 2017, the retirement fund of the Group includes 7,513,746 and 7,856,328 shares of PNB classified as financial assets at FVTPL. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer of TBG.

As of December 31, 2018 and 2017, financial assets at FVTPL and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to Special Deposit Accounts placement with BSP.

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

24. Revenue and Cost of Goods Sold and Services

Revenue consist of:

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
		<i>(In Thousands)</i>	
Banking revenue (Note 5)	₱40,172,558	₱31,840,282	₱29,142,262
Sale of consumer goods	32,188,132	29,653,729	25,836,669
Rental income (Note 13)	1,494,724	1,388,010	1,278,447
Real estate sales	1,704,011	845,053	1,573,067
	₱75,559,425	₱63,727,074	₱57,830,445

Dissaggregated revenue information

Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2018 *(in thousands)*:

	Goods/Services transferred at a point in time	Services transferred over time	Revenues outside the scope of PFRS 15	Total
Sale of consumer goods	₱32,188,132	₱—	₱—	₱32,188,132
Service fees and commission income (Note 5)	4,251,692	—	—	4,251,692
Real estate sales	—	1,704,011	—	1,704,011
Interest income	—	—	35,775,002	35,775,002
Rental income	—	—	1,494,724	1,494,724
Trading and securities gains - net	—	—	145,864	145,864
	₱36,439,824	₱1,704,011	₱37,415,590	₱75,559,425

Banking revenue consists of:

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
		<i>(In Thousands)</i>	
Interest income on:			
Loans and receivables	₱29,966,048	₱22,400,914	₱19,504,896
Trading and investment securities (Note 21)	4,653,756	3,386,209	3,997,203
Deposits with banks and others	775,820	1,324,527	592,088
Interbank loans receivable	379,378	185,833	33,862
	35,775,002	27,297,483	24,128,049
Service fees and commission income	4,251,692	3,982,496	3,635,656
Trading and securities gains - net	145,864	560,303	1,378,557
	₱40,172,558	₱31,840,282	₱29,142,262

Sale of consumer goods consists of:

	2018	2017	2016
		<i>(In Thousands)</i>	
Gross sales	₱34,671,217	₱31,557,067	₱27,810,969
Less sales returns, discounts and allowances	2,483,085	1,903,338	1,974,300
	₱32,188,132	₱29,653,729	₱25,836,669

Cost of goods sold and services consists of:

	2018	2017	2016
	<i>(In Thousands)</i>		
Cost of consumer goods sold:			
Materials used and changes in inventories (Note 9)	₱17,046,895	₱12,221,165	₱10,859,240
Depreciation and amortization (Note 12)	1,457,186	1,420,401	1,078,798
Fuel and power	1,156,867	915,246	642,949
Taxes and licenses	1,095,280	4,521,002	3,800,493
Personnel costs	952,168	841,325	531,912
Communication, light and water	803,313	765,499	653,102
Outside services	469,040	458,124	843,531
Repairs and maintenance	440,679	412,990	408,766
Freight and handling	278,824	228,191	148,005
Others	1,097,523	851,317	134,522
	24,797,775	22,635,260	19,101,318
Cost of banking services	9,584,973	6,302,228	5,682,707
Cost of real estate sales (Note 9)	1,209,101	433,875	1,089,026
Cost of rental income (Note 13)	373,553	308,447	253,830
Cost of goods sold and services	₱35,965,402	₱29,679,810	₱26,126,881

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

Cost of banking services consist of:

	2018	2017	2016
	<i>(In Thousands)</i>		
Interest expense on:			
Deposit liabilities (Note 15)	₱7,672,146	₱4,767,830	₱3,770,558
Services fees and commission expense	773,082	786,917	914,528
Bills payable and other borrowings (Notes 7 and 17)	662,340	747,481	997,621
Bonds payable	477,405	—	—
	₱9,584,973	₱6,302,228	₱5,682,707

25. Selling Expenses

	2018	2017	2016
	<i>(In Thousands)</i>		
Advertising and promotions	₱1,222,569	₱1,268,650	₱1,019,650
Freight and handling	511,970	500,420	380,180
Depreciation and amortization (Note 12)	321,754	330,508	491,555
Managament, consulting and professional fees	154,138	137,136	128,990
Personnel costs	128,334	131,429	98,626
Commissions	85,455	35,364	40,183
Royalties	63,680	49,663	22,302
Fuel and oil	59,270	39,783	19,487
Materials and consumables	19,485	12,167	79,428
Repairs and maintenance	12,723	40,957	52,922
Others	121,009	146,348	18,199
	₱2,700,387	₱2,692,425	₱2,351,522

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

26. General and Administrative Expenses

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
		<i>(In Thousands)</i>	
Personnel costs	₱10,145,421	₱9,680,647	₱9,005,453
Taxes and licenses	4,061,037	2,791,913	2,403,014
Depreciation and amortization (Notes 12, 13 and 14)	2,146,521	1,780,146	1,549,080
Occupancy	1,754,360	1,584,930	1,536,063
Provision for credit losses (Note 8)	1,694,883	1,211,683	2,817,432
Outside services	1,692,528	1,519,014	1,471,963
Insurance	1,622,893	1,457,699	1,156,159
Marketing and promotional Management, consulting and professional fees	1,170,997	928,613	1,064,993
	947,377	933,482	993,847
Information technology	561,597	446,393	499,319
Travel and transportation	397,404	355,668	350,788
Materials and consumables	313,388	248,210	300,719
Communication, light and water	301,802	255,531	58,481
Repairs and maintenance	249,940	224,062	224,325
Provision for (reversal of) legal cases and other losses - net (Notes 13 and 38)	(240,110)	(300,730)	404,253
Litigation	73,787	80,139	97,097
Freight and handling	69,940	104,490	45,727
Fuel and oil	12,001	27,355	31,065
Others	1,326,511	1,051,220	1,027,370
	₱28,302,277	₱24,380,465	₱25,037,148

Others include expense items mainly relating to banking operations, which are individually not significant as to amounts.

27. Finance Costs and Finance Income

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

	2018	2017	2016
		<i>(In Thousands)</i>	
Finance costs (Note 19):			
Short-term debts	₱100,722	₱—	₱—
Unsecured term loan and notes payable (Note 20)	44,735	141,937	202,490
	₱145,457	₱141,937	₱202,490

	2018	2017	2016
Finance income:			
Cash and other cash items (Note 5)	₱172,212	₱119,369	₱55,164
Interest-bearing contracts receivable (Note 8)	14,324	16,473	41,673
FVTPL (Note 6)	20,105	20,183	6,279
AFS investments (Note 7)	—	1,075	3,310
	₱206,641	₱157,100	₱106,426

28. Other Income (Charges)

	2018	2017 (As Restated, Note 37)	2016 (As Restated, Note 37)
		<i>(In Thousands)</i>	
Net gains on sale or exchange of assets	₱6,086,834	₱4,163,507	₱1,823,200
Marketing allowance and income from wire transfers	479,053	355,224	-
Rental income and dues (Note 13)	766,295	597,612	460,224
Dividend income	87,517	62,143	53,729
Recoveries from charged off assets	58,584	67,582	729,594
Mark-to-market gain on financial assets designated at FVTPL (Note 6)	17,234	59,513	62,955
Gain on retirement	6,644	6,869	—
Referral, processing and trust fees	3,011	3,448	2,811
Gain on disposal of AFS investments	—	7,914	—
Gain on re-measurement of a previously held interest (Note 11)	—	—	1,644,339
Share in net losses of associates and a joint venture (Note 11)	—	—	(513,266)
Recovery from insurance claims (Note 38)	—	—	5,271
Others	332,736	19,348	54,955
	₱7,837,908	₱5,343,160	₱4,323,812

- Net gains on sale or exchange of assets include sale of investment properties of the banking segment in 2018, 2017 and 2016 amounting to ₱5,703.5 million, ₱3,755.5 million and ₱1,496.5 million, respectively.
- 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:

	2018		2017	
	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax Liabilities ⁽²⁾	Net Deferred Income Tax Assets ⁽³⁾	Net Deferred Income Tax Liabilities ⁽⁴⁾
	(In Thousands)			
Recognized directly in the consolidated statements of income:				
Deferred income tax assets on:				
Allowance for impairment loss on:				
Receivables	₱5,824,073	₱81,379	₱5,581,034	₱12,270
Inventories	1,440	1,223	1,440	3,282
Property, plant and equipment	—	50,678	—	51,333
Accumulated depreciation on investment properties	565,226	—	607,838	—
Unrealized losses on:				
Sale of property to a subsidiary	384,523	—	384,523	4,529
Inventory on hand	—	—	—	4,675
Deferred rent income	168,330	—	—	—
Net retirement benefits liabilities	131,813	212,288	134,581	199,511
Reserves and others	102,346	14,801	6,263	53,637
Deferred rent expense	60,835	22	52,531	—
Advance rentals	29,917	—	25,278	—
Accrued expenses	19,267	—	14,395	—
Difference between accounting and tax carrying amount of property, plant and equipment	16,059	—	6,037	—
Difference between tax and book basis of accounting for real estate and banking transactions	6,724	—	5,092	—
Excess MCIT	6,634	—	13,624	3,315
Unamortized past service cost	505	8,629	904	7,955
Reserve for unearned premiums	—	—	8,871	—
NOLCO	—	—	10,217	11,617
Provision for losses	—	—	—	4,396
	7,317,692	369,020	6,852,628	356,520
Deferred income tax liabilities on:				
Fair value gain on investment properties	(1,248,724)	(2,850)	(1,615,523)	—
Excess of fair values over carrying values of property, plant and equipment acquired through business combination	(620,039)	(33,472)	—	(13,952)

(Forward)

	2018		2017	
	Net Deferred Income Tax Assets ⁽¹⁾	Net Deferred Income Tax Liabilities ⁽²⁾	Net Deferred Income Tax Assets ⁽³⁾	Net Deferred Income Tax Liabilities ⁽⁴⁾
	(In Thousands)			
Gain on re-measurement of a previously held interest	(P164,429)	P–	(P160,272)	P–
Unrealized foreign exchange gains	(124,753)	(15,951)	(1,024,651)	(1,337)
Borrowing cost capitalized to property, plant, and equipment	(61,306)	(9,277)	(25,095)	(10,293)
Deferred rental income	(40,884)	(22,376)	(44,346)	(12,206)
Difference between tax and book basis of accounting for real estate transactions	(14,133)	–	(27,117)	–
Unamortized debt cost	(7,383)	–	(7,948)	–
Gain on asset share swap	–	(443,110)	–	–
Net retirement plan assets	–	(115,032)	–	(115,718)
Net changes in fair values of FVTPL financial assets	–	(4,940)	(164,480)	(25,503)
Others	(118,418)	(18,619)	(76,280)	(371)
	(2,400,069)	(665,627)	(3,145,712)	(179,380)
	4,917,623	(296,607)	3,706,916	177,140

Recognized directly in equity:

Deferred income tax assets on:

Remeasurement losses on retirement benefits	–	31,382	2,787	33,622
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Deferred income tax liabilities on:

Revaluation increment on property, plant and equipment	(2,878,457)	(8,133,399)	(2,139,125)	(1,495,330)
Remeasurement gains on defined benefit plans	(140,122)	(133,745)	(109,689)	(65,738)
Unrealized gains on changes in fair value of financial assets at FVTOCI	–	(278,635)	–	(64,042)
	(3,018,579)	(8,545,779)	(2,248,814)	(1,625,110)
	(3,018,579)	(8,514,397)	(2,246,027)	(1,591,488)
	P1,899,044	(P8,811,004)	P1,460,889	(P1,414,348)

⁽¹⁾ Pertain to IPI, ADI, Eton and PNB

⁽²⁾ Pertain to LTG, Saturn, PLI, AAC, TDI, ABI, PWI and FTC

⁽³⁾ Pertain to PWI, IPI, ADI, Eton and PNB

⁽⁴⁾ Pertain to LTG, Saturn, PLI, AAC, TDI, ABI and FTC

b. Provision for current income tax consists of:

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

- c. As of December 31, 2018 and 2017, the Group has not recognized deferred income tax assets on certain deductible temporary differences such as NOLCO, excess MCIT and other items based on the assessment that sufficient taxable profit will not be available to allow the deferred income tax assets to be utilized as follows:

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

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

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

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

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

- d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory income tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2018	2017	2016
	<i>(In Thousands)</i>		
Provision for income tax at statutory income tax rate from:			
Continuing operations	P7,664,410	P5,400,018	P3,858,656
Discontinued operations	58,983	23,295	437,659
	7,723,393	5,423,313	4,296,315
Adjustments resulting from:			
Equity in net earnings of associates	(1,717,520)	(1,188,987)	(813,462)
Income subjected to final tax	(982,900)	(922,414)	(618,319)

(Forward)

	2018	2017	2016
		(In Thousands)	
Nontaxable income	(P549,727)	(P442,855)	(P126,066)
Non-deductible expenses	314,284	400,757	354,889
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in current year	64,685	306,365	284,487
Application of NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized in prior years	(37,435)	(52,926)	(333,810)
Nontaxable gain on remeasurement	—	—	(493,302)
Nontaxable gain on investment in an associate arising from contribution of non-monetary assets	—	—	(316,872)
Difference of itemized deduction against 40% of taxable income	—	(26,198)	(1,965)
Others	(21,619)	—	—
Provision for income tax	P4,793,161	P3,497,055	P2,231,895
Provision for income tax from continuing operations	P4,769,800	P3,489,777	P2,166,769
Provision for income tax from discontinued operations	23,361	7,278	65,126
Provision for income tax	P4,793,161	P3,497,055	P2,231,895

30. Equity

Capital Stock

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

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

- Capital stock is held by a total of 370 and 369 stockholders as of December 31, 2018 and 2017, respectively.
- 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 ₱37.7 billion, where excess over par value amounting to ₱35.9 billion was recorded as capital in excess of par. Stock issue costs amounting to ₱1.1 billion were charged against capital in excess of par in 2013. Other offering-related expenses amounting to ₱59.0 million were charged directly to “General and administrative expenses”.

Retained Earnings and Dividends

- a. On May 12, 2015, LTG’s BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all stockholders of record as of May 27, 2015 and to be paid not later than June 10, 2015.
- b. On April 12, 2016, LTG’s BOD and stockholders, respectively, approved the declaration and distribution of cash dividends of ₱0.15 per share or a total of ₱1,623.2 million to all shareholders of record as of April 28, 2016 and to be paid out not later than May 6, 2016.
- c. On March 28, 2018, LTG’s BOD approved the declaration and distribution of regular cash dividends of ₱0.15 per share and special cash dividends of ₱0.05 per share or a total of ₱2,164.3 million to all stockholders of record as of March 28, 2018.
- d. Retained earnings include undistributed earnings amounting to ₱76.4 billion in 2018, ₱65.5 billion in 2017 and ₱55.7 billion in 2016, representing accumulated earnings of subsidiaries and equity in net earnings of associates and joint ventures, which are not available for dividend declaration until received in the form of dividends from the combining entities and associates. Retained earnings available for dividend declaration as at December 31, 2018 amounted to ₱14.5 billion.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of the shares held in treasury (shares of stock of the company held by subsidiaries), unrealized foreign exchange gains except those attributable to cash and cash equivalents, fair value adjustment or gains arising from mark-to-market valuation, deferred income tax assets recognized that reduced the income tax expense and increased net income and retained earnings, and other unrealized gains or adjustments as of December 31, 2018 and 2017.

Preferred Shares of Subsidiaries issued to Parent Company

On March 20, 2013, the respective BOD’s and stockholders of various Bank Holding Companies approved the increase in their authorized capital stocks comprising of common shares and preferred shares with par value of ₱1.00 per share. The preferred shares were subscribed by Tangent through conversion of its advances into investments in certain Bank Holding Companies (see Note 22). Upon approval of the Philippine SEC of the increase in authorized capital stock of Bank Holding Companies on various dates in October, November and December 2013, preferred shares amounting to ₱7.4 billion presented under “Preferred shares of subsidiary issued to Parent Company” were issued to Tangent. Unissued preferred shares amounting to ₱6.0 billion which are pending approval of the Philippine SEC are presented under “Deposit for future stock subscription” as of December 31, 2013. Upon approval of the Philippine SEC on various dates in 2014, the remaining preferred shares of ₱6.0 billion and additional conversion of advances to preferred shares during the year of ₱4.7 billion were issued to Tangent. As of December 31, 2018 and 2017, preferred shares of the subsidiary issued to the Parent Company amounted to ₱18.1 billion.

The preferred shares have the following features: non-voting, non-cumulative and non-participating as to dividends, non-redeemable for a period of seven years from the issuance and redeemable at the option of the Bank Holding Companies after seven years from the issuance thereof.

Other Equity Reserves

Other equity reserves as at December 31, 2018 and 2017 consist of (*in thousands*):

Equity adjustments arising from business combination under common control (Note 1)	₱445,113
Equity adjustments from sale of the Company's shares of stock held by a subsidiary	193,212
Effect of transaction with non-controlling interest	66,658
Effect of sale of a subsidiary to Company	99,655
Effect of sale of direct interest in a subsidiary	(543)
	₱804,095

Shares of Stock of the Company Held by Subsidiaries

Shares held by subsidiaries include 4.9 million shares owned by All Seasons amounting to ₱12.5 million as of December 31, 2018 and 2017 and 76.5 million shares owned by Saturn amounting to ₱150.9 million as of December 31, 2011. On July 25, 2012, the shares of stocks owned by Saturn were sold to Tangent at ₱4.50 per share. As a result, the excess of the selling price over the cost of the treasury shares amounting to ₱193.2 million is presented as an addition to other equity reserves.

Non-controlling Interests

Below are the changes in non-controlling interests:

	2018	2017	2016
		<i>(In Thousands)</i>	
Balance as of January 1, as previously reported	₱47,000,912	₱42,506,591	₱40,882,077
Effect of adoption of:			
PFRS 9	(712,042)	—	—
PFRS 15	(106)	—	—
Balance as of January 1, as adjusted	46,288,764	42,506,591	40,882,077
Net income attributable to non-controlling interests	4,363,483	3,749,883	2,698,749
Share in other comprehensive income, net of deferred income tax effect:			
Revaluation increment on property plant and equipment	10,164,156		
Cumulative translation adjustments	282,883	218,809	131,789
Remeasurement gains (losses) on defined benefit plans (Notes 2 and 23)	254,047	416,293	(199,210)
Net changes in AFS investments (Note 7)	74,783	134,878	(191,249)
Share in remeasurement gain on defined benefit plans of associates	—	(25,542)	—
Reserves of disposal group classified as held for sale	(62,655)	—	—
Dividends received	(19,357)	—	(543,751)
Effect of changes in ownership interest (Note 37)	—	—	(271,814)
Balance as of December 31	₱61,346,104	₱47,000,912	₱42,506,591

31. Basic/Diluted Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Basic/diluted earnings per share were calculated as follows:

	2018	2017	2016
	<i>(In Thousands)</i>		
Net income attributable to equity holders of the Company	₱16,194,778	₱10,830,773	₱9,390,407
Divided by weighted-average number of shares	10,821,389	10,821,389	10,821,389
Basic/diluted EPS for net income attributable to equity holders of the Company	₱1.50	₱1.00	₱0.87

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

	2018	2017	2016
	<i>(In Thousands)</i>		
Net income from continuing operations attributable to equity holders of the Company	₱15,974,806	₱10,830,773	₱9,342,679
Divided by weighted-average number of shares	10,821,389	10,821,389	10,821,389
Basic/diluted EPS for net income from continuing operations attributable to equity holders of the Company	₱1.48	₱1.00	₱0.86

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

32. Financial Risk Management Objectives and Policies

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BOD of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group.

Financial Risk Management Objectives and Policies of the Banking Segment

Risk Management Strategies

The Group's banking activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's banking segment continuing profitability.

The Group monitors its processes associated with the following overall risk categories:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

Further, the Group is also cognizant of the need to address various other risks through the primary divisions presented above. The following are also taken into consideration as part of the overall Enterprise Risk Management (ERM) Framework:

- Interest Rate Risk in Banking Book (IRRBB)
- Strategic Business Risk
- Reputational Risk
- Credit Concentration Risk
- Cyber Security Risk

The banking segment's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the banking segment's BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by the banking segment's senior management.

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

For the banking segment, credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The banking segment manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Group in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;

- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
 - a. portfolio growth
 - b. movement of loan portfolio
 - c. adequacy of loan loss reserves
 - d. trend of nonperforming loans (NPLs)
 - e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

Credit-related commitments

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

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

Derivative financial instruments

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

Collateral and other credit enhancement

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

	2018			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Securities held under agreements to resell	P20,700	P19,947	P753	P19,947
Loans and receivables:				
Receivables from customers*:				
Corporates	471,255	349,173	122,081	349,173
LGU	6,850	203	6,647	203
Credit Cards	12,336	—	12,336	—
Retail SME	11,079	19,751	—	11,079
Housing Loans	32,570	32,011	559	32,011
Auto Loans	11,512	10,948	564	10,948
Others	16,989	13,689	3,300	13,689
Other receivables	18,455	11,841	6,614	11,841
	P601,746	P457,563	P152,854	P448,891

* Receivables from customers exclude residual value of the leased asset.

	2017			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
	(In Millions)			
Securities held under agreements to resell	P14,621	P14,473	P148	P14,473
Loans and receivables:				
Receivable from customers*:				
Business loans	408,977	573,329	280,657	128,320
Consumers	45,972	36,704	31,580	14,392
GOCCs and National Government				
Agencies (NGAs)	17,429	15,117	2,312	15,117
LGUs	7,177	1,024	6,701	475
Fringe benefits	516	553	299	217
Unquoted debt securities	14,674	—	14,674	—
Other receivables	22,461	16,086	21,585	877
	P531,827	P657,286	P357,956	P173,871

* Receivables from customers exclude residual value of the leased asset.

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the balance sheet plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 38 to the financial statements.

Excessive risk concentration

The banking segment's credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The banking segment analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the banking segment constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty

The internal limits set by the Parent Company for group exposures are as follows:

CRR 1-12 – up to 95% of the regulatory Single Borrowers Limit (SBL)

CRR 13-18 – up to of the regulatory SBL

CRR 18-26 – up to 50% of the regulatory SBL

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

b. Geographic Concentration

The table below shows the banking segment's credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	2018	2017
	<i>(In Millions)</i>	
Philippines	₱797,159	₱675,612
Asia (excluding the Philippines)	75,285	56,927
USA and Canada	14,328	12,225
Oceania	1,684	3,399
Other European Union Countries	1,573	2,448
United Kingdom	8,449	9,318
Middle East	17	11
	₱898,495	₱759,940

c. Concentration by Industry

The table below show the industry sector analysis of the banking segment's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements:

	2018			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	<i>(In Millions)</i>			
Primary target industry:				
Financial intermediaries	₱91,268	₱32,396	₱132,939	₱256,603
Wholesale and retail	82,913	–	–	82,913
Electricity, gas and water	72,397	3,825	–	76,222
Transport, storage and communication	42,057	244	–	42,301
Manufacturing	49,252	446	–	49,698
Public administration and defense	18,008	–	–	18,008
Agriculture, hunting and forestry	7,294	–	–	7,294
Secondary target industry:				
Government	962	101,119	22,149	124,230
Real estate, renting and business activities	83,011	240	–	83,251
Construction	25,852	14,605	–	40,457
Others**	108,033	8,571	914	117,518
	₱581,047	₱161,446	₱156,002	₱898,495

* Loans and receivables exclude residual value of the leased asset.

** Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

*** Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".

	2017			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
	(In Millions)			
Primary target industry:				
Financial intermediaries	₱81,340	₱11,386	₱52,731	₱145,457
Electricity, gas and water	72,591	—	—	72,591
Wholesale and retail	63,607	243	—	63,850
Manufacturing	39,143	256	—	39,399
Transport, storage and communication	30,808	—	—	30,808
Public administration and defense	23,770	—	—	23,770
Agriculture, hunting and forestry	7,139	—	—	7,139
Secondary target industry:				
Government	359	70,845	105,497	176,701
Real estate, renting and business activities	82,786	9,218	—	92,004
Construction	18,743	—	—	18,743
Others**	81,155	7,577	746	89,478
	₱501,441	₱99,525	₱158,974	₱759,940

* Loans and receivables exclude residual value of the leased asset.

** Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.

*** Other financial assets include the following financial assets: "Due from BSP", "Due from other banks", "Interbank loans receivable", "Securities held under agreements to resell" and other financial assets booked under "Other Assets".

The internal limit of the banking segment based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12% for priority industry, 8% for regular industry and 30% for power industry, versus total loan portfolio.

Credit quality per class of financial assets

Beginning January 1, 2018

The banking segment re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions. Moreover, the banking segment has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the banking segment's exposures can be categorized as either Non-Retail and Retail. Non-Retail segment of the banking segment may be defined as debt obligation of a sovereign, financial institution, corporation, partnership, or proprietorship. In particular, the banking segment's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g., Project Finance), Large Corporates, Middle Market and Commercial SME, GOCCs, LGUs. Retail exposures are exposures to individual person or persons or to a small business and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

Loans and Receivables

The credit quality of Non-Retail segment is evaluated and monitored using external ratings and internal credit risk rating system. In 2018, the banking segment transitioned to a new internal credit risk rating system but maintained the 2-dimensional structure; that is, there is still a borrower risk rating (BRR) and the facility risk rating (FRR).

Specific borrower rating models were developed by the banking segment to capture specific and unique risk characteristics of each of the Non-Retail segment. The borrower risk rating is measured based on

financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well.

The banking segment uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

Facility Risk Rating on the other hand assesses potential loss of the banking segment in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e., FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g., CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the banking segment in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the banking segment's receivables from customers are defined below:

Credit quality	26-grade CRR system Used beginning January 1, 2018
High S&P Equivalent Global Rating: AAA to BBB-	<i>BRR 1 Excellent</i> 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. <i>BRR 2 Very Strong</i> 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. <i>BRR 3 Strong</i> 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. <i>BRR 4-6 Good</i> 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. <i>BRR 7-9 Satisfactory</i> Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility BRR 8 is minimal/low. <i>BRR 10-12 Adequate</i> Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.
Standard S&P Equivalent Global Rating: BB+ to BB-	<i>BRR 13-15 Average</i> Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility.

Credit quality	26-grade CRR system Used beginning January 1, 2018
	<i>BRR 16-18 Acceptable</i> 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. <i>BRR 19-20 Vulnerable</i> Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility
Substandard S&P Equivalent Global Rating: B+ to CCC-	<i>BRR 21-22 Weak</i> 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. <i>BRR 23-25 Watchlist</i> Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	<i>BRR 26 Default</i> Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the banking segment's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31, 2018:

	2018			
	Stage 1	Stage 2	Stage 3	Total
	(In Millions)			
Subject to CRR				
Non-Retail - Corporate				
High	P246,665	P1,158	P-	P247,823
Standard	160,963	3,171	-	164,134
Substandard	39,019	845	-	39,864
Impaired	-	-	4,725	4,725
	446,647	5,174	4,725	456,546
Subject to Scoring & Unrated				
Non-Retail	22,672	4,809	65	27,546
Corporate	15,795	4,791	40	20,626
LGU	6,877	18	25	6,920
Retail	67,797	589	2,660	71,046
Auto Loans	11,682	21	40	11,743
Housing Loans	33,650	36	157	33,843
Retail SME	10,717	139	1,192	12,048
Credit Card	11,748	393	1,271	13,412
Others	16,074	501	2,115	18,690
	106,543	5,899	4,840	117,282
	P553,190	P11,073	P9,565	P573,828

Prior to January 1, 2018

The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-grade CRR System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

Loans and Receivables

The CRRs of the banking segment's receivables from customers (applied to loans with asset size of ₱15.0 million and above) are defined below:

- CRR 1 - Excellent
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.
- CRR 2 - Super Prime
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.
- CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.
- CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.
- CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.
- CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.
- CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.
- CRR 8 - Acceptable
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

- CRR 9 - Fair
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.
- CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.
- CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the banking segment.
- CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to PNB because of unfavorable record or unsatisfactory characteristics.
- CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.
- CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The banking segment is using the Credit Scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the banking segment's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2017, but net of residual values of leased assets.

	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
<i>(In Millions)</i>				
Rated Receivable from Customers				
1 - Excellent	₱4,291	₱—	₱—	₱4,291
2 - Super Prime	44,151	—	—	44,151
3 - Prime	79,626	—	—	79,626
4 - Very Good	51,583	5	—	51,588
5 - Good	41,160	—	—	41,160
6 - Satisfactory	47,553	105	—	47,658
7 - Average	32,300	5	15	32,320
8 - Fair	26,324	1	—	26,325
9 - Marginal	8,112	—	61	8,173
10 - Watchlist	55,367	65	185	55,617
11 - Special Mention	3,030	143	160	3,333
12 - Substandard	958	38	2,245	3,241
13 - Doubtful	—	322	719	1,041
14 - Loss	—	11	2,986	2,997
	₱394,455	₱695	₱6,371	₱401,521
Unrated Receivable from Customers				
Consumers	₱18,241	₱469	₱711	₱19,421
LGUs	51,342	1,427	218	52,987
Fringe Benefits	7,001	35	150	7,186
GOCCs and NGAs	493	4	13	510
	77,077	1,935	1,092	80,104
	₱471,532	₱2,630	₱7,463	₱481,625

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, 2018						
	Rated				Unrated	Total
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal		
(In Millions)						
Due from BSP ^{1/}	P–	P–	P4,057,938	P4,057,938	P98,665,375	P102,723,313
Due from other banks	8,756,826	5,844,679	2,843,242	17,444,747	3,080,571	20,525,318
Interbank loans receivables	2,514,507	7,463,359	453,379	10,431,245	817,209	11,248,454
Securities held under agreements to resell	–	–	–	–	20,700,000	20,700,000
Financial assets at FVTOCI						
Government securities	1,054,606	–	32,061,889	33,116,495	–	33,116,495
Private debt securities	403,959	4,794,125	4,447,169	9,645,253	8,026,756	17,672,009
Quoted equity securities	–	–	183,148	183,148	616,392	799,540
Unquoted equity securities	–	–	–	–	86,122	86,122
Investment securities at amortized cost:						
Government securities	33,463	–	59,986,408	60,019,871	201,444	60,221,315
Private debt securities	697,319	5,620,280	3,967,772	10,285,371	29,266,025	39,551,396
Financial asset at amortized cost:						
Others ^{4/}	–	–	–	–	805,005	805,005
December 31, 2017						
	Rated				Unrated	Total
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal		
(In Millions)						
Due from BSP ^{1/}	P–	P–	P108,744	P108,744	P–	P108,744
Due from other banks	5,679	5,156	3,392	14,227	7,798	22,025
Interbank loans receivables	5,801	2,754	3,590	12,145	693	12,838
Securities held under agreements to resell	–	–	14,621	14,621	–	14,621
Financial assets at FVTPL:						
Held-for-trading:						
Government securities	–	–	1,822	1,822	386	2,208
Derivative assets ^{2/}	97	13	298	408	155	563
Private debt securities	–	–	–	–	31	31
Equity securities	–	–	43	43	31	74
Investment in UITFs	–	–	6	6	–	6
AFS investments:						
Government securities	2,240	–	33,736	35,976	5,645	41,621
Private debt securities	2,284	5,942	9,044	17,270	9,650	26,920
Quoted equity securities	–	–	140	140	1,005	1,145
Unquoted equity securities	–	–	1	1	146	147
HTM investments						
Government securities	125	–	23,959	24,084	2,721	26,805
Loans and receivables:						
Unquoted debt securities ^{3/}	–	–	149	149	10,785	10,934
Others ^{4/}	–	–	12,561	12,561	–	12,561

^{1/} 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of PNB.

^{2/} Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (see Note 21).

^{3/} Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market, net of allowances.

^{4/} Loans and receivables - Others is composed of accrued interest receivable, accounts receivable, sales contracts receivable and other miscellaneous receivables, net of allowances (see Note 8)

Liquidity Risk and Funding Management

The banking segment's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the banking segment's business operations or unanticipated events created by customer behavior or capital market conditions. The banking segment seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the banking segment on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the banking segment's financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	December 31, 2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
	(In Millions)					
Financial Assets						
COCI	P16,825	P-	P-	P-	P-	P16,825
Due from BSP and other banks	123,249	-	-	-	-	123,249
Interbank loans receivable	10,665	2,443	-	-	-	13,108
Securities held under agreements to resell	20,714	-	-	-	-	20,714
Financial assets at FVTPL:						
Government securities	8,458	-	-	-	-	8,458
Private debt securities	416	-	-	-	-	416
Equity securities	545	-	-	-	-	545
Investment in UITFs	6	-	-	-	-	6
Derivative assets:						
Gross contractual receivable	27,667	10,536	60	112	683	39,058
Gross contractual payable	(27,520)	(10,490)	(43)	(82)	(411)	(38,546)
	147	46	17	30	272	512
Financial Assets at FVTOCI:						
Government securities	988	554	3,726	1,193	28,390	34,851
Private debt securities	319	153	485	2,757	14,375	18,089
Equity securities	-	-	-	-	886	886
Investment securities at amortized cost						
Government securities	685	1,141	1,741	7,563	60,260	71,390
Private debt securities	1,237	12,857	1,430	2,469	31,929	49,922
Financial assets at amortized cost:						
Receivables from customers	91,597	71,843	29,824	15,112	471,459	679,835
Other receivables	3,900	88	4	3,703	18,739	26,434
Other assets	670	-	-	-	135	805
Total financial assets	P280,421	P89,125	P37,227	P32,827	P626,445	P1,066,045

(Forward)

December 31, 2018						
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
<i>(In Millions)</i>						
Financial Liabilities						
Deposit liabilities:						
Demand	P153,065	P–	P–	P–	P–	P153,065
Savings	325,879	55,278	11,125	3,935	59,492	455,709
Time and LTNCDS	64,510	47,940	15,741	12,398	47,608	188,197
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	21,313	4,168	59	112	626	26,278
Gross contractual receivable	(21,151)	(4,104)	(44)	(85)	(431)	(25,815)
	162	64	15	27	195	463
Bills and acceptances payable	21,220	31,471	7,651	1,731	9,251	71,324
Bonds Payable	–	–	335	335	18,045	18,715
Accrued interest payable and accrued other expenses payable	530	546	319	478	719	2,592
Other liabilities	9,375	80	11	4,958	1,484	15,908
Total financial liabilities	P574,741	P135,379	P35,197	P23,862	P136,794	P905,973
December 31, 2017						
	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
<i>(In Millions)</i>						
Financial Assets						
COCI	P12,391	P–	P–	P–	P–	P12,391
Due from BSP and other banks	130,769	–	–	–	–	130,769
Interbank loans receivable	12,287	228	173	150	–	12,838
Securities held under agreements to resell	14,621	–	–	–	–	14,621
Financial assets at FVTPL:						
Held-for-trading:						
Government securities	2,208	–	–	–	–	2,208
Equity securities	74	–	–	–	–	74
Private debt securities	31	–	–	–	–	31
Derivative assets:						
Gross contractual receivable	30,057	5,364	565	104	788	36,878
Gross contractual payable	(29,835)	(5,327)	(541)	(81)	(530)	(36,314)
	222	37	24	23	258	564
Designated at FVTPL:						
Investment in UITFs	6	–	–	–	–	6
AFS investments:						
Government securities	467	575	936	1,330	45,921	49,229
Private debt securities	124	122	342	2,260	29,676	32,524
Equity securities	–	–	–	–	1,291	1,291
HTM investments:						
Government securities	189	212	304	757	44,208	45,670
Loans and receivables:						
Receivables from customers	80,262	67,820	22,814	12,711	388,954	572,561
Unquoted debt securities	6,385	4,997	3,218	–	85	14,685
Other receivables	6,366	811	852	870	14,480	23,379
Other assets	887	–	–	–	47	934
Total financial assets	P267,289	P74,802	P28,663	P18,101	P524,920	P913,775
Financial Liabilities						
Deposit liabilities:						
Demand	P125,582	P–	P–	P–	P–	P125,582
Savings	291,611	31,169	12,960	18,754	15,869	370,363
Time	44,892	41,380	12,008	10,078	59,496	167,854

(Forward)

	December 31, 2017					Total
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	(P17,063)	(P2,950)	(P44)	(P104)	(P598)	(P20,759)
Gross contractual receivable	16,935	2,942	41	83	415	20,416
	(128)	(8)	(3)	(21)	(183)	(343)
Bills and acceptances payable	14,828	1,108	4,390	5,075	12,967	38,368
Subordinated debt						
Accrued interest payable and accrued other expenses payable	1,544	156	30	10	17	1,757
Other liabilities	19,622	180	75	183	1,502	21,562
Total financial liabilities	P497,951	P73,985	P29,460	P34,079	P89,668	P725,143

Market Risks

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets.

The succeeding sections provide discussion on the impact of market risk on the banking segment's trading and structural portfolios.

Trading market risk

Trading market risk exists in the banking segment as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. PNB is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risk in the trading portfolio, the banking segment uses the Value-at-Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation methodology (with 99% confidence level) models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the banking segment's BOD. The VaR figures are back-tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are also reported to the ROC. Below are the objectives and limitations of the VaR methodology, VaR assumptions/parameters, backtesting, stress testing and VaR limits.

a. Objectives and limitations of the VaR methodology

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

b. VaR assumptions/parameters

VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

b. Backtesting

The validity of the assumptions underlying the banking segment's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The banking segment adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

c. Stress Testing

To complement the VaR approximations, the banking segment conducts stress testing on a quarterly basis, the results of which are being reported to the banking segment's BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

e. VaR Limits

Since VaR is an integral part of the banking segment's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the banking segment. VaR is computed on an undiversified basis; hence, the banking segment does not consider the correlation effects of the three trading portfolios.

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
<i>(In Millions)</i>				
December 31, 2018	₱5.27	₱523.30	₱4.59	₱533.16
Average Daily	3.49	292.78	2.98	299.25
Highest	14.85	574.50	5.04	594.39
Lowest	0.45	93.54	0.48	94.47
December 31, 2017	7.30	179.72	1.29	188.31
Average Daily	3.75	178.20	0.74	182.69
Highest	18.25	324.06	1.52	343.83
Lowest	0.63	58.00	0.26	58.89

* FX VaR is the bankwide foreign exchange risk

** The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days

Structural Market Risk of the Banking Segment

Non-trading Market Risk

Interest rate risk

The banking segment seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the banking segment to interest rate risk. PNB measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a “repricing gap” analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a “repricing gap” for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the banking segment an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company’s assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The following table sets forth the repricing gap position of the banking segment:

	2018					
	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	P17,189	P2,227	P359	P114	P103,360	P123,249
Interbank loans receivable and securities held under agreements to resell	27,252	4,293	—	403	—	31,948
Receivables from customers and other receivables - gross**	133,599	49,477	14,250	10,655	85,552	293,533
Total financial assets	P178,040	P55,997	P14,609	P11,172	P188,912	P448,730
Financial Liabilities*						
Deposit liabilities:						
Savings	P103,373	P51,010	P17,410	P9,855	P219,974	P401,622
Time***	54,243	29,115	12,695	7,290	43,867	147,210
Bonds payable	—	—	—	—	15,661	15,661
Bills and acceptances payable	26,010	29,626	9,334	438	4,675	70,083
Total financial liabilities	P183,626	P109,751	P39,439	P17,583	P284,177	P634,576
Repricing gap	(P5,586)	(P53,754)	(P24,830)	(P6,411)	(P95,265)	(P185,846)
Cumulative gap	(5,586)	(59,340)	(84,170)	(90,581)	(185,846)	—

* Financial instruments that are not subject to repricing/rollforward were excluded.

** Receivables from customers excludes residual value of leased assets (Note 10).

***Excludes LTNCD.

	December 31, 2017					Total
	Up to 1 Month	More than 1 to 3 Months	More than 3 to 6 Months	More than 6 to 12 months	Beyond 1 year	
	<i>(In Millions)</i>					
Financial Assets*						
Due from BSP and other banks	₱24,660	₱2,121	₱728	₱186	₱4,590	₱32,285
Interbank loans receivable	19,962	7,327	170	-	-	27,459
Receivable from customers and other receivables - gross**	133,507	75,008	17,509	23,249	89,054	338,327
Total financial assets	₱178,129	₱84,456	₱18,407	₱23,435	₱93,644	₱398,071
Financial Liabilities*						
Deposit liabilities:						
Savings	₱75,794	₱22,624	₱12,265	₱17,355	₱223,384	₱351,422
Time***	59,937	25,560	10,091	10,243	23,721	129,552
Bills and acceptances payable	22,795	15,547	753	885	3,937	43,917
Total financial liabilities	₱158,526	₱63,731	₱23,109	₱28,483	₱251,042	₱524,891
Repricing gap	₱19,603	₱20,725	(₱4,702)	(₱5,048)	(₱157,398)	(₱126,820)
Cumulative gap	19,603	40,328	35,626	30,578	(126,820)	-

*Financial instruments that are not subject to repricing/rollforward were excluded.

**Receivable from customers excludes residual value of leased assets.

The following table sets forth, for the year indicated, the impact of changes in interest rates on the banking segment's repricing gap for the years ended December 31:

	2018	2017	
	Income Before Income Tax	Income Before Income Tax	Equity
	<i>(In Millions)</i>		
+50bps	₱321	₱321	₱196
-50bps	(321)	(321)	(196)
+100bps	643	643	391
-100bps	(643)	(643)	(391)

As one of the long-term goals in the risk management process, the banking segment has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk

Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The banking segment takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in PNB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with PNB and foreign currency-denominated borrowings appearing in the regular books of PNB.

Foreign currency deposits are generally used to fund PNB's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00%

liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, PNB has additional foreign currency assets and liabilities in its foreign branch network.

The banking segment's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The banking segment believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the banking segment is involved.

The table below summarizes the banking segment's exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	December 31, 2018			December 31, 2017		
	USD	Others*	Total	USD	Others	Total
	(In Millions)					
Assets						
COCI and due from BSP	₱138	₱331	₱469	₱157	₱519	₱676
Due from other banks	8,777	9,814	18,591	9,554	7,082	16,636
Interbank loans receivable and securities held under agreements to resell	2,869	1,950	4,819	2,904	1,679	4,583
Loans and receivables	18,453	11,377	29,830	13,729	941	14,670
Financial Assets at FVTPL	447	1	448	-	-	-
AFS investments/Financial Assets at FVTOCI	4,180	1,326	5,506	14,380	1,593	15,973
Financial assets at amortized cost/HTM investments	10,207	775	10,982	7	-	7
Other assets	3,539	1,238	4,777	62	210	272
Total assets	₱48,610	₱26,812	₱75,422	₱40,793	₱12,024	₱52,817
Liabilities						
Deposit liabilities	₱9,288	₱9,261	₱18,549	₱9,304	₱4,154	₱13,458
Bills and acceptances payable	8,549	26,778	35,327	12,465	7,667	20,132
Accrued taxes, interest and other expenses	76	107	183	56	37	93
Other liabilities	1,392	1,138	2,530	10,659	436	11,095
Total liabilities	19,305	37,284	56,589	32,484	12,294	44,778
Net Exposure	₱29,305	(₱10,472)	₱18,833	₱8,309	(₱270)	₱8,039

* Other currencies include UAE Dirham (AED), Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).

Information relating to the banking segment's currency derivatives is contained in Note 21.

Financial Risk Management Objectives and Policies of the Companies in the Group other than the Banking Segment

Risk Management Strategies

The Group's principal financial instruments comprise of short-term and long-term debts and COCI. The main purpose of these financial instruments is to ensure adequate funds for the Group's operations and capital expansion. Excess funds are invested in available-for-sale financial assets with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risks (consisting of foreign exchange risk, interest rate risk and equity price risk).

Credit Risk

The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. Management closely monitors the fund and financial condition of the Group.

In addition, credit risk of property development segment is managed primarily through analysis of receivables on a continuous basis. The credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due. This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities having similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Group's financial strength and undermine public confidence. Concentration risk per business segment could arise on the following:

- Distilled spirits segment's annual sales pertain mainly to two trusted parties with sales to them comprising about 84% of the total segment revenue.
- Beverage segment annual sales pertain mainly to 13 parties with sales to them comprising about 100% of the total beverage sales.
- Tobacco and property development segments are not exposed to concentration risk because it has diverse base of counterparties.

Credit quality per class of financial assets

"Standard grade" accounts consist of financial assets from trusted parties with good financial condition. "Substandard grade" accounts, on the other hand, are financial assets from other counterparties with relatively low defaults. The Group did not regard any financial asset as "high grade" in view of the erratic cash flows or uncertainty associated with the financial instruments. "Past due but not impaired" are items with history of frequent default, nevertheless, the amount due are still collectible. Lastly, "Impaired financial assets" are those that are long-outstanding and have been provided with allowance for doubtful accounts.

Set out below is the information about the credit risk exposure on the Company's financial assets using provision matrix (in millions) as of December 31, 2018:

	Cash in banks	Due from related parties	Trade and other receivables					Total
			Current	Days past due				
				< 30 days	30-60 days	61-90 days	> 90 days	
Expected credit loss rate	- %	- %	0.01% - 8.07%	0.25% - 11.50%	0.40% - 1.57%	0.64% - 2.05%	36.15% - 49.61%	
Estimated total gross carrying amount at default	₱28,863.5	₱2,028.6	₱15,030.3	₱2,228.3	₱1,471.3	₱1,532.7	₱4,330.9	₱24,593.5
Expected credit loss	₱-	₱-	₱1.5	₱1.6	₱1.9	₱3.3	₱456.2	₱464.5

The tables below show the credit quality of financial assets and an aging analysis of past due but not impaired accounts of the Group except for the banking segment as of December 31, 2017:

	Neither past due nor impaired		Past due but not impaired				Impaired Financial Assets	Total
	Standard Grade	Sub- standard Grade	31 to 60 days	61 to 90 days	91 to 120 days	Over 120 Days		
	(In Millions)							
Loans and receivables:								
Cash, cash equivalents and other cash items	₱3,405	₱-	₱-	₱-	₱-	₱-	₱-	₱3,405
Trade receivables	2,888	-	2,494	1,520	1,835	4,497	33	13,267
Other receivables	2,083	-	41	7	76	435	90	2,732
Due from related parties	2,028	-	-	-	-	-	-	2,028
Refundable deposits	25	-	2	159	-	-	-	186
Financial assets at FVTPL	3,564	-	-	-	-	-	-	3,564
AFS investments	3,373	-	-	-	-	-	-	3,373
	₱17,366	₱-	₱2,537	₱1,686	₱1,911	₱4,932	₱123	₱28,555

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's objective is to maintain a balance between continuity of funding and sourcing flexibility through the use of available financial instruments. The Group manages its liquidity profile to meet its working and capital expenditure requirements and service debt obligations. As part of the liquidity risk management program, the Group regularly evaluates and considers the maturity of its financial assets (e.g., trade receivables, other financial assets) and resorts to short-term borrowings whenever its available cash or matured placements is not enough to meet its daily working capital requirements. To ensure availability of short-term borrowings, the Group maintains credit lines with banks on a continuing basis.

The Group relies on budgeting and forecasting techniques to monitor cash flow concerns. The Group also keeps its liquidity risk minimum by prepaying, to the extent possible, interest bearing debt using operating cash flows.

The following tables show the maturity profile of the Group's other financial liabilities (undiscounted amounts of principal and related interest) as well as the financial assets used for liquidity management (in millions):

	2018			2017		
	Less than one year	1 to less than 3 years	Total	Less than one year	1 to less than 3 years	Total
Cash and other cash items	P4,473	P-	P4,473	P3,405	P-	P3,405
Trade receivables	14,311	-	14,311	13,267	-	13,267
Other receivables	6,387	-	6,387	2,732	-	2,732
Due from related parties	2,028	-	2,028	2,028	-	2,028
Refundable deposits	179	-	179	186	-	186
Financial assets at FVTPL	784	-	784	3,564	-	3,564
AFS investments	-	-	-	-	3,373	3,373
	P28,162	P-	P28,162	P25,182	P3,373	P28,555
Short term debts	P2,050	P-	P2,050	P1,550	P-	P1,550
Accounts payable and other liabilities*	7,668	-	7,668	8,071	-	8,071
Long-term debts	91	2,803	2,894	115	1,475	1,590
Due to related parties	336	-	336	-	-	-
Other liabilities	161	2,239	2,400	196	2,220	2,416
	P10,306	P5,042	P15,348	P9,932	P3,695	P13,627

*Excluding non-financial liabilities amounting to P221.0 million and P181.43 million as of December 31, 2018 and 2017, respectively.

Market Risks of the Group other than the Banking Segment

The Group's operating, investing, and financing activities are directly affected by changes in foreign exchange rates and interest rates. Increasing market fluctuations in these variables may result in significant equity, cash flow and profit volatility risks for the Group. For this reason, the Group seeks to manage and control these risks primarily through its regular operating and financing activities.

Management of financial market risk is a key priority for the Group. The Group generally applies sensitivity analysis in assessing and monitoring its market risks. Sensitivity analysis enables management to identify the risk position of the Group as well as provide an approximate quantification of the risk exposures. Estimates provided for foreign exchange risk, cash flow interest rate risk, price interest rate risk and equity price risk are based on the historical volatility for each market factor, with adjustments being made to arrive at what the Group considers to be reasonably possible.

Equity price risk

Equity price risk is the risk that the fair value of equities will decrease as a result of changes in the levels of equity indices and value of individual stocks. In 2018, 2017 and 2016, changes in fair value of equity instruments held as AFS equity instruments due to a reasonable possible change in equity interest, with all other variables held constant, will increase profit by P310.4 million, P327.4 million and P44.2 million, respectively, if equity prices will increase by 19.4%, 10.3% and 8.9%, respectively. An equal change in the opposite direction would have decrease equity by the same amount.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates would unfavorably affect future cash flows from financial instruments. As of December 31, 2018 and 2017, the Group's long-term debts are not exposed to the risk in changes in market interest rates since the debts are issued at fixed rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. Repricing of floating rate financial instruments is mostly at interval of three months or six months.

Foreign currency risk

The non-banking segment of the Group is not significantly affected by foreign currency risk since the Group has no significant foreign currency transactions.

33. Offsetting of Financial Assets and Financial Liabilities

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2018						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in the consolidated balance sheet [a-b] [c]	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] [e]
				Financial instruments	Fair value of Financial collateral	
(In Thousands)						
Derivative assets (Notes 6 and 21)	₱46,075,448	(₱45,569,485)	₱505,963	(₱58,838)	₱–	₱447,125
Securities sold under agreements to repurchase (Note 8)	20,700,000	–	20,700,000	–	(19,947,247)	752,753
	₱66,775,448	(₱45,569,485)	₱21,205,963	(₱58,838)	(₱19,947,247)	₱1,199,878
December 31, 2017						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in the consolidated balance sheet [a-b] [c]	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] [e]
				Financial instruments	Fair value of Financial collateral	
(In Thousands)						
Derivative assets (Notes 6 and 21)	₱37,138,999	(₱36,646,558)	₱492,441	(₱44,921)	₱-	₱492,441
Securities sold under agreements to repurchase (Note 8)	14,621,483	-	14,621,483	(148,225)	(14,473,258)	148,225
	₱51,760,482	(₱36,646,558)	₱15,113,924	(₱193,146)	(₱14,473,258)	₱640,666

Financial liabilities

December 31, 2018						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Financial instruments	Fair value of Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
(In Thousands)						
Derivative liabilities (Notes 16 and 21)	₱32,870,042	(₱33,325,851)	(₱455,809)	(₱92,025)	₱—	(₱355,459)
Securities sold under agreements to repurchase (Note 8)*	48,035,239	—	48,035,239	—	(56,368,809)	(4,477,639)
Total	₱80,905,281	(₱33,325,851)	₱47,579,430	(₱92,025)	(₱56,368,809)	(₱4,833,098)

* Included in bills and acceptances payable in the consolidated balance sheet.

December 31, 2017						
Financial assets recognized at end of reporting period by type	Gross carrying Amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the consolidated balance sheet [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
				Financial instruments	Fair value of	
					Financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
<i>(In Thousands)</i>						
Derivative liabilities (Notes 16 and 21)	₱19,126,140	(₱19,390,528)	(₱264,388)	₱91,071	₱-	(₱249,459)
Securities sold under agreements to repurchase (Note 17)*	35,350,259	-	35,350,259	-	(39,827,898)	-
Total	₱54,476,399	(₱19,390,528)	₱35,085,871	₱91,071	(₱39,827,898)	(₱249,459)

* Included in bills and acceptances payable in the consolidated balance sheet.

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

34. Fair Value Measurement

The Group has assets and liabilities that are measured at fair value on a recurring and non-recurring basis in the consolidated balance sheets after initial recognition. Recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated balance sheets at the end of each reporting period. These include financial assets and liabilities at FVTPL and AFS investments. Non-recurring fair value measurements are those that another PFRSs requires or permits to be recognized in the consolidated balance sheet in particular circumstances. These include land and land improvements, buildings and building improvements and machineries and equipment measured at revalued amount and investment properties measured at cost but with fair value measurement disclosure.

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, 2018 and 2017, the carrying values of the Group's financial assets and liabilities approximate their respective fair values, except for the following financial instruments:

	December 31, 2018		December, 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Thousands)			
Financial Assets:				
Financial assets at amortized cost/				
HTM investments	₱99,772,711	₱96,187,595	₱26,732,182	₱27,924,081
Loans and receivables:				
Receivables from customers	561,351,072	561,366,817	472,471,979	481,012,205
Unquoted debt securities	—	—	10,934,147	10,942,367
	₱661,123,783	₱657,554,412	₱510,138,308	₱519,878,653
Financial Liabilities:				
Financial liabilities at amortized cost:				
Deposit liabilities -				
Time deposits	₱147,210,729	₱144,481,264	₱160,915,991	₱179,058,554
Bills payables	68,316,974	68,305,178	41,684,801	41,765,052
Long term debts:				
Subordinated debt	3,497,797	3,551,484	—	—
Unsecured term loan	2,893,952	2,631,179	6,080,146	5,443,815
Bonds payable	15,661,372	16,019,776	—	—
LTNCD	31,403,225	28,517,657	—	—
Other liabilities:				
Payable to landowners	911,826	904,506	1,937,568	1,934,286
Tenants' rental deposits	506,007	491,929	452,372	414,362
	₱270,401,882	₱264,902,973	₱211,070,878	₱228,616,069

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

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

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

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

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

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

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

Time deposit liabilities, bills payable with long term maturity and subordinated debt including designated at FVTPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges, from 3.00% to 4.25% and 3.00% to 4.13% as of December 31, 2018 and 2017, respectively.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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, 2018			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	₱7,127,592	₱1,330,121	₱-	₱8,457,713
Derivative assets	-	516,774	57,854	574,628
Private debt securities	-	415,583	-	415,583
Equity securities	545,148	-	-	545,148
Designated at FVTPL:				
Investment in UITFs	-	789,949	-	789,949
	₱7,672,740	₱3,052,427	₱57,854	₱10,783,021
AFS investments:				
Government securities	₱19,415,700	₱14,149,977	₱-	₱33,565,677
Private debt securities	5,581,723	12,090,286	-	17,672,009
Equity securities**	5,443,467	554,591	115,724	6,113,782
	₱30,440,890	₱26,794,854	₱115,724	₱57,351,468
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	₱-	₱-	₱38,952,215	₱38,952,215
Plant buildings and building improvements	-	-	14,108,050	14,108,050
Machineries and equipment	-	-	7,257,496	7,257,496
	₱-	₱-	₱60,317,761	₱60,317,761
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	₱-	₱470,648	₱-	₱470,648
	₱-	₱470,648	₱-	₱470,648
Assets for which fair values are disclosed:				
Financial Assets				
Financial assets at amortized cost	₱87,006,196	₱8,980,697	₱200,702	₱96,187,595
Loans and receivables:				
Receivables from customers	-	-	561,366,817	561,366,817
	₱87,006,196	₱8,980,697	₱561,567,519	₱657,554,412

(Forward)

December 31, 2018				
	Level 1	Level 2	Level 3	Total
(In Thousands)				
Non-financial Assets				
Investment properties***				
Land	P-	P-	P22,583,028	P22,583,028
Buildings and improvements	-	-	2,662,848	2,662,848
	P-	P-	P25,245,876	P25,245,876
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	P-	P-	P144,481,264	P144,481,264
Long term debts:				
Bills payable	-	-	68,305,178	68,305,178
Unsecured term loan	-	-	2,631,179	2,631,179
Bonds payable	-	-	16,019,776	16,019,776
LTNCD	-	-	28,517,657	28,517,657
Other liabilities:				
Payable to landowners	-	-	904,506	904,506
Tenants' rental deposits	-	-	491,929	491,929
	P-	P-	P261,351,489	P261,351,489
* Excludes cash component				
** Excludes unquoted available-for-sale securities				
*** Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.				
December 31, 2017				
	Level 1	Level 2	Level 3	Total
(In Thousands)				
Assets measured at fair value:				
Financial Assets				
Financial assets at FVTPL:				
Held-for-trading:				
Government securities	P1,534,791	P673,162	P-	P2,207,953
Derivative assets	-	508,045	54,938	562,983
Private debt securities	-	31,305	-	31,305
Equity securities	151,628	-	-	151,628
Designated at FVTPL:				
Investment in UITFs	-	6,303	-	6,303
	P1,686,419	P1,218,815	P54,938	P2,960,172
AFS investments:				
Government securities	P37,083,207	P4,583,318	P-	P41,666,525
Private debt securities	21,018,127	5,928,190	-	26,946,317
Equity securities**	-	1,077,221	147,353	1,224,574
	P58,101,334	P11,588,729	P147,353	P69,837,416
Non-financial assets				
Property, plant and equipment***				
Land and land improvements	P-	P-	P15,783,538	P15,783,538
Plant buildings and building improvements	-	-	13,135,848	13,135,848
Machineries and equipment	-	-	7,295,561	7,295,561
	P-	P-	P36,214,947	P36,214,947
Liabilities measured at fair value:				
Financial liabilities				
Financial liabilities at FVTPL:				
Designated at FVTPL:				
Derivative liabilities	P-	P343,522	P-	P343,522
	P-	P343,522	P-	P343,522

(Forward)

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
	(In Thousands)			
Assets for which fair values are disclosed:				
Financial Assets				
HTM investment	₱23,735,468	₱4,188,612	₱-	₱27,924,080
Loans and receivables:				
Receivables from customers	-	-	481,012,205	481,012,205
Unquoted debt securities	-	-	10,942,367	10,942,367
	₱23,735,468	₱4,188,612	₱491,954,572	₱519,878,652
Non-financial Assets				
Investment properties***				
Land	₱-	₱-	₱37,007,466	₱37,007,466
Buildings and improvements	-	-	16,935,051	16,935,051
	₱-	₱-	₱53,942,517	₱53,942,517
Liabilities for which fair values are disclosed:				
Financial liabilities				
Financial liabilities at amortized cost:				
Deposit liabilities:				
Time deposits	₱-	₱-	₱179,058,533	₱179,058,533
Long term debts:				
Bills payable	-	-	41,765,052	41,765,052
Unsecured term loan	-	-	5,443,815	5,443,815
Other liabilities:				
Payable to landowners	-	-	1,934,286	1,934,286
Tenants' rental deposits	-	-	414,362	414,362
	₱-	₱-	₱228,616,048	₱228,616,048

* Excludes cash component

** Excludes unquoted available-for-sale securities

*** Based on the fair values from appraisal reports which are different from their carrying amounts which are carried at cost.

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

The unquoted debt securities fair values are estimated based on the market data approach that makes use of market multiples derived from a set of comparable. Multiples were determined that is most relevant to assessing the value of the unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVPU as of reporting date.

As of December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of property, plant and equipment and investment properties held by the Group:

	Valuation Techniques	Significant Unobservable Inputs	Range of Estimates
Property, plant and equipment:			
Land and land improvements	Market Data Approach	Price per square meter	₱6,000 - ₱6,200
Plant buildings and building improvements			
Building	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated total floor area	₱4,287 - ₱10,000 24 - 1548 sq.m
Building improvements	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱2.8 million - ₱26.5 million 315 - 723 components
Machineries and equipment	Replaceable Fixed Asset Valuation Approach	Replacement cost Estimated number of components	₱3,200 - ₱8.6 million 465 - 1,162 components
Investment properties:			
Land	Market Data Approach	Price per square meter, size, location, shape, time element and corner influence	₱800 - ₱100,000
Land and building	Market Data Approach and Replacement Cost Approach	New Reproduction Cost	

Significant favorable (unfavorable) adjustments to the aforementioned factors based on the professional judgment of the independent appraisers would increase (decrease) the fair value of land. Significant increases (decreases) in the current replacement cost would result in significantly higher (lower) appraised values whereas significant increase (decrease) in the remaining useful life of the property, plant and equipment over their total useful life would result in significantly higher (lower) appraised values.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group's property, plant and equipment and investment properties are as follows:

	Description
<u>Valuation Techniques</u>	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replaceable Fixed Asset Valuation Approach	This method requires an analysis of the buildings and other land improvements by breaking them down into major components. Bills of quantities for each component using the appropriate basic unit are prepared and related to the unit cost for each component developed on the basis of current costs of materials, labor, plant and equipment prevailing in the locality to arrive at the direct costs of the components. Accrued depreciation was based on the observed condition.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.

(Forward)

Valuation Techniques	Description
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	“An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors’ perceptions of the market over time”. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

35. Notes to Consolidated Statements of Cash Flows

Non-cash Investing Activities

- a. As of December 31, 2018 and 2017, unpaid additions to property, plant and equipment amounted to ₱180.4 million and ₱163.0 million, respectively, which is included as part of “Accounts payable and accrued expenses”.
- b. In 2018, 2017 and 2016, the Group reclassified cost of land, which was previously recognized as real estate inventory, amounting to ₱282.9 million, ₱536.7 million and ₱2.5 billion, respectively, to investment property.
- c. In 2018, the Group reclassified costs of condominium units amounting to ₱16.4 million to property and equipment. In 2017, the Group reclassified costs of condominium units and furniture, fixtures and equipment totaling to ₱973.7 million to property and equipment.
- d. In 2016, the Group reclassified certain properties from property, plant and equipment with aggregate carrying amount of ₱4.7 billion to investment properties.
- e. Construction costs of building intended for leasing amounting to ₱105.5 million under real estate inventory, which were still under construction as of December 31, 2015, were transferred to investment properties.

36. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and has a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Group is also required to maintain debt-to-equity ratios to comply with certain loan agreements and covenants in 2018 and 2017.

The Group's dividend declaration is dependent on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changewere made in the objectives, policies or processes in 2018 and 2017.

The Group considers its total equity reflected in the consolidated balance sheets as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt-to-equity ratio (total debt/total equity). Included as debt are the Group's total liabilities while equity pertains to total equity as shown in the consolidated balance sheets.

The table below shows the leverage ratios of the Group:

	2018	2017
	<i>(In Thousands, except ratios)</i>	
Total liabilities	₱866,586,420	₱721,780,274
Total equity	231,190,388	195,315,415
Total liabilities and equity	₱1,097,776,808	₱917,095,689
Debt ratio	0.79:1	0.79:1
Debt-to-equity ratio	3.75:1	3.70:1

Regulatory Qualifying Capital for the Banking Segment

Under existing BSP regulations, the determination of PNB's compliance with regulatory requirements and ratios is based on the amount of PNB's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRSs in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

PNB and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Group has taken into consideration the impact of the foregoing requirements on the banking segment to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, PNB has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e., it is about how to effectively run PNB's operations by ensuring that PNB maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, PNB shall maintain a capital level that will not only meet the BSP CAR requirement but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. PNB has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. PNB complies with the required annual submission of updated ICAAP.

37. Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operations

Sale of PNB's 51% share in APLII to Allianz SE

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

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the more than 660 branches nationwide of PNB.

As of December 31, 2015, APLII was classified as disposal group held for sale and as discontinued operation.

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

Distribution Rights (EDR) amounting to US\$44.9 million (P2.1 billion) and US\$21.1 million (P1.0 billion), respectively.

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

PNB recognized gain on sale of the 51% interest in APLII amounting to P400.3 million, net of taxes and transaction costs amounting to P276.7 million and P153.3 million, respectively. The consideration amounting to P939.7 million allocated to the EDR was recognized as “Other deferred revenue” and will be amortized to income over 15 years from date of sale (see Note 20).

Prior to the sale of shares to Allianz SE, PNB acquired additional 15% stockholdings from the minority shareholders for a consideration amounting to P292.4 million between June 2, 2016 and June 5, 2016.

PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, requires assets and liabilities of APLII, together with the results of operations, to be classified separately from continuing operations. As a result, the Group reclassified all the assets and liabilities of APLII to “Assets of disposal group classified as held for sale” and “Liabilities of disposal group classified as held for sale”, respectively, in the 2015 consolidated balance sheet.

The business of APLII represented the entirety of PNB’s life insurance business until December 21, 2015. APLII was previously presented in the “Others” section of the business segment disclosure. With APLII being classified as a discontinued operation in 2015, the comparative consolidated statement of income and comprehensive income in 2014 have been re-presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. PNB recognized gain on sale amounting to P834.5 million recognized in “Net Income from Discontinued Operations” in the consolidated statements of income.

The results of operation of APLII are presented below:

	Years Ended December 31	
	2016	2015
	<i>(In Thousands)</i>	
Interest income		
Loans and receivables	P7,610	P20,343
Trading and investment securities	195,605	443,116
Deposits with banks and others	5,151	3,504
	208,366	466,963
Net service fees and commission expense	(67,591)	(281,639)
Net insurance premiums	508,770	1,716,308
Net insurance benefits and claims	(441,090)	(1,290,439)
Net insurance premiums	67,680	425,869
Other income (charges)		
Trading and investment securities gains - net	1,800	20,874
Foreign exchange gains (losses) - net	(876)	11,806
Miscellaneous	80,667	149,061
Total operating income	290,046	792,934

(Forward)

	Years Ended December 31	
	2016	2015
	<i>(In Thousands)</i>	
General and administrative expenses		
Compensation and fringe benefits	₱71,741	₱223,322
Taxes and licenses	16,759	39,570
Occupancy and equipment-related costs	7,610	9,764
Depreciation and amortization	4,707	10,704
Provision for impairment, credit and other losses	4,704	32,765
Miscellaneous	39,692	74,573
Total general and administrative expenses	145,213	390,698
Result from operating activities	144,833	402,236
Provision for income tax	(21,049)	(44,305)
Result from operating activities, net of tax	123,784	357,931
Gain on sale of discontinued operation	834,535	–
Transaction cost	(153,307)	–
Provision for income tax	(185,449)	–
Net income from discontinued operations	₱619,563	₱357,931
Attributable to:		
Equity holders of the Company	₱279,894	₱161,699
Non-controlling interests	339,669	196,232
	₱619,563	₱357,931

Earnings per share attributable to equity holders of the Company from discontinued operations are computed as follows:

	2016	2015	2014
Net income attributable to equity holders of the banking segment	₱279,894	₱161,699	₱119,339
Weighted average number of common shares for basic earnings per share	10,821,389	10,821,389	10,821,389
Basic earnings per share	₱0.03	₱0.02	₱0.01

The net cash flows directly associated with the disposal group follow:

	2016	2015
	(In Thousands)	
Net cash provided by operating activities	₱171,535	₱1,210,588
Net cash used in investing activities	(267,458)	(903,161)

The major classes of assets and liabilities of APLII classified as disposal group held for sale as of December 31, 2015 are as follows (*in thousands*):

Assets

Cash and other cash items	₱642,544
Financial assets at fair value through profit or loss	
Segregated fund assets	13,634,687
AFS investments	7,468,653
HTM investments	1,269,398
Other receivables	437,210
Property and equipment - net	29,546
Other assets	44,719
Assets of disposal group classified as held for sale	₱23,526,757

Liabilities

Financial liabilities at fair value through profit or loss	
Segregated fund liabilities	₱13,725,321
Accrued taxes, interest and other expenses	161,817
Insurance contract liabilities	6,837,144
Other liabilities	728,339
Liabilities of disposal group classified as held for sale	₱21,452,621

Reserves

Net unrealized gain on AFS investments	₱617,649
Remeasurement losses on retirement plan	(24,412)
Reserves of disposal group classified as held for sale	₱593,237

Attributable to:

Equity holders of the Company	₱335,000
Non-controlling interests	258,237
	₱593,237

Transactions with Heineken

On May 27, 2016, the Group entered into a joint venture agreement with Heineken to establish AB HPI to manage its beer segment. In accordance with the agreement, ABI transferred its beer business comprising of the related inventories, returnable containers and brands to AB HPI in exchange for shares of stock at the fair value of ₱787.4 million. The Group has significant influence over AB HPI and therefore, treats the investment as investment in associate.

The Group recognized the difference amounting to ₱1,056.2 million between its investment and its equity interest in AB HPI as gain on investment in an associate arising from contribution of non-monetary assets in exchange for shares of stock. Also, the Group recognized ₱46.3 million as gain from the sale of its brands (see Note 6). These amounts are presented as part of discontinued operations in 2016.

The results generated from discontinued operations of the beer segment of the Group follow (in thousands):

	Years Ended December 31	
	2016	2015
NET SALES	₱3,136,595	₱2,900,686
COST OF GOODS SOLD		
Taxes and licenses	1,306,050	1,352,173
Materials used and changes in inventories	816,349	458,775
Depreciation and amortization	249,654	289,436
Utilities	77,478	83,417
Outside services	63,056	135,265
Fuel and oil	90,191	107,400
Repairs and maintenance	79,347	102,491
Salaries, wages and other employee benefits:		
Salaries and wages	108,093	125,696
Retirement benefits costs	32,080	32,458
Professional fees	49,181	59,875
Supplies	86,625	72,416
Others	81,446	58,088
	3,039,550	2,877,490
GROSS PROFIT	97,045	23,196
SELLING EXPENSES		
Advertising and promotions	305,174	167,369
Depreciation and amortization (Note 12)	141,031	160,431
Personnel costs	36,175	37,343
Materials and consumables	7,371	39,486
Repairs and maintenance	2,516	2,946
Travel and transportation	8,639	8,385
Others	30,754	25,695
	531,660	441,655
GENERAL AND ADMINISTRATIVE EXPENSES		
Taxes and licenses	40,442	31,792
Management, consulting and professional fees	34,595	26,097
Personnel costs	26,918	22,405
Travel and transportation	3,779	4,781
Communication, light and water	3,042	1,751
Repairs and maintenance	865	940
Occupancy	490	—
Materials and consumables	284	73
Insurance	53	36
Others	1,584	794
	112,052	88,669
OPERATING LOSS	(546,667)	(507,128)
OTHER INCOME		
Gain on investment in an associate arising from contribution of non-monetary assets	1,056,240	—
Gain on sale of brands	46,300	—
Others	3,463	7,135
INCOME (LOSS) FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX	559,336	(499,993)

(Forward)

	Years Ended December 31	
	2016	2015
PROVISION FOR (BENEFIT FROM)		
INCOME TAX		
Current	(P132,184)	(P131,000)
Deferred	(16,887)	(18,998)
	(149,071)	(149,998)
NET INCOME (LOSS) FROM		
DISCONTINUED OPERATIONS	P708,407	(P349,995)

The net cash flows directly associated from discontinued operations follow:

	2016	2015
	<i>(In Thousands)</i>	
Net cash provided by operating activities	(P401,289,143)	P185,264,589
Net cash used in investing activities	(230,836,659)	(807,443,468)
	(P632,125,802)	(P622,178,879)

Exchange of shares of PNB Gen for shares of Allied Bankers Insurance Corp. (ABIC)

On April 26, 2018, the BOD of PNB and PNB Holdings approved the exchange of all their holdings in PNB Gen for shares in ABIC. As a result, PNB reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated balance sheet. The business of PNB Gen represented the entirety of the Group's non-life insurance business. PNB Gen was previously presented in the 'Others' section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations.

The results of operation of PNB Gen are presented below:

	2018	2017	2016
Interest income			
Loans and receivables	P355	P370	P451
Investment securities	60,477	46,698	29,391
Deposits with banks and others	1,994	5,617	5,412
	62,826	52,685	32,254
Net service fees and commission income (expense)	7,590	(102,216)	(79,664)
Net insurance premium	1,228,794	656,329	624,927
Net insurance benefits and claims	1,292,949	322,244	295,015
Net insurance premium	(64,155)	334,085	329,912
Other income			
Trading and investment securities gains/(loss)	(4,176)	—	13,966
Foreign exchange gains/(loss) - net	15,921	(2,557)	1,516
Miscellaneous	—	—	3,403
Total operating income	18,006	281,997	304,837
Operating expenses			
Compensation and fringe benefits	130,241	149,084	170,040
Occupancy and equipment-related costs	18,695	18,699	16,185
Provision for reversal of credit losses	12,635	(19,463)	(80)

(Forward)

	2018	2017	2016
Depreciation and amortization	₱6,169	₱6,164	₱5,076
Taxes and licenses	931	3,051	770
Miscellaneous	45,946	46,811	38,930
Total operating expenses	214,617	204,346	230,921
Income (loss) from discontinued operations before income tax	(₱196,611)	₱77,651	₱73,466
Provision for income tax	23,361	7,278	7,699
Net income (loss) from discontinued operations	(₱219,972)	₱70,373	₱65,767

Net Insurance Premium

This account consists of:

	2018	2017	2016
Gross earned premiums	₱2,501,725	₱2,291,986	₱2,348,900
Reinsurers' share of gross earned premiums	(1,272,931)	(1,635,657)	(1,723,973)
	₱1,228,794	₱656,329	₱624,927

Net Insurance Benefits and Claims

This account consists of:

	2018	2017	2016
Gross insurance contract benefits and claims paid	₱1,711,759	₱429,772	₱780,537
Reinsurers' share of gross insurance contract benefits and claims paid	(606,275)	(86,845)	(140,357)
Gross change in insurance contract liabilities	109,703	147,880	(201,403)
Reinsurers' share of change in insurance contract liabilities	77,762	(168,563)	(143,762)
	₱1,292,949	₱322,244	₱295,015

The major classes of assets and liabilities of PNB Gen classified as disposal group as of December 31, 2018 follows:

Assets

Due from other banks	₱477,761
Financial assets at FVTPL	1,329
Financial assets at FVTOCI	455,654
Investment securities at amortized cost	1,033,150
Loans and other receivables - net	4,970,998
Deferred reinsurance premium	985,966
Property and equipment - net	14,495
Deferred tax assets	26,180
Intangible assets - net	8,205
Other assets	264,885
	₱8,238,623

Liabilities

Accrued taxes, interest and other expenses	₱229,263
Insurance contract liabilities	5,420,609
Reserved for unearned reinsurance premium	1,438,001
Accounts payable	136,987
Other liabilities	12,951
	₱7,237,811
Net assets of disposal group held for sale	₱984,715
Amounts included in accumulated OCI:	
Net unrealized loss on financial assets at FVTOCI	(₱15,601)
Remeasurement losses on retirement plan	(6,292)
	(₱21,893)

Net cash flow used in discontinued operations follow:

	2018
The net cash flows directly associated with the disposal group:	
Operating	(₱232,229)
Investing	212,896
	(₱19,333)

38. Commitments, Provision and Contingencies and Other Matters

Commitments

Operating lease commitments - the Group as lessor

The Group entered into lease agreements with third parties covering its investment property portfolio, certain motor vehicles and items of machinery. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenues, whichever is higher. The Group records rental income on a straight-line basis over less noncancellable lease term. Any difference between the calculated rental income and amount actually received is recognized as “Deferred rent” (see Note 8).

The Group has tenants’ rental deposits and advance rentals which are presented under “Other noncurrent liabilities”. Tenants’ rental deposits pertain to the amounts paid by the tenants at the inception of the lease which is refundable at the end of the lease term. Advance rentals pertain to deposits from tenants which will be applied against receivables either at the beginning or at the end of lease term depending on the lease contract. Tenants’ rental deposits and advance rentals amounted to ₱506.0 million and ₱104.6 million as of December 31, 2018 and ₱452.4 million and ₱51.8 million as of December 31, 2017, respectively.

Future minimum rental receivables under noncancellable operating leases as of December 31 are as follows:

	2018	2017
	<i>(In Thousands)</i>	
Within one year	₱1,617,061	₱1,185,458
After one year but not more than five years	2,829,157	1,817,706
More than five years	548,242	145,505
	₱4,994,460	₱3,148,669

Operating lease commitments - the Group as lessee

The future aggregate minimum lease payments under several operating leases of the Group are as follows:

	2018	2017
	(In Thousands)	
Within one year	₱830,195	₱761,675
Within two to five years	1,727,394	1,729,169
More than five years	1,821,833	1,758,887
	₱4,379,422	₱4,249,731

Future minimum lease receivables under finance leases are as follows:

	2018	2017
	(In Thousands)	
Within one year	₱1,400,361	₱1,557,543
Beyond one year but not more than five years	1,501,944	1,308,300
More than five years	26,034	25,200
Total	2,928,339	2,891,043
Less amounts representing finance charges	13,770	62,612
Present value of minimum lease payments	₱2,914,569	₱2,828,431

Trust Operations

Securities and other properties held by PNB in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of PNB. Such assets held in trust were carried at a value of ₱87.7 billion and ₱88.0 billion as of December 31, 2018 and 2017, respectively. In connection with the trust functions of PNB, government securities amounting to ₱1.0 billion and ₱941.5 million (included under 'AFS Investments') as of December 31, 2018 and 2017, respectively, are deposited with the BSP in compliance with trust regulations.

In compliance with existing banking regulations, PNB transferred from surplus to surplus reserves the amounts of ₱23.0 million, ₱23.9 million and ₱19.4 million in 2018, 2017 and 2016, respectively, which correspond to 10% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20% of its regulatory capital.

Provisions and Contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Movements of provision for legal claims included in “Other liabilities” in the consolidated balance sheets for the Group are as follows (see Note 20):

	2018	2017
	(In Thousands)	
Balance at beginning of year	₱969,107	₱1,300,290
Provisions (reversals) during the year (Note 26)	(253,331)	(331,183)
Balance at end of year	₱715,776	₱969,107

Excise Tax Refund Claim

The new excise tax law or RA 10351 became effective on January 1, 2013, and increased the excise tax rates of, among others, distilled spirits. Another change that was brought in by the new law is the shift in the tax burden of distilled spirits from raw materials to the finished product.

To implement the said law, the Secretary of Finance issued Revenue Regulations No. 17-2012 (RR 17-2012), which, in one of its transitory provisions, disallowed the tax crediting of the excise taxes that were already paid under the old law on the raw materials inventory by end of the year 2012 or by the effectivity of RA 10351 in favor of the excise taxes due on the finished goods inventory.

The Commissioner of Internal Revenue issued on January 9, 2013 Revenue Memorandum Circular (RMC) No. 3-2013. This RMC sought to clarify further certain provisions of RR No. 17-2012 but in effect extended the imposition of the excise tax on both the (1) ethyl alcohol as raw materials in the production of compounded liquors and (2) the manufactured finished product. Per the RMC, both ethyl alcohol and compounded liquor are considered as distinct distilled spirits products and are thus separate taxable items under the new law. This interpretation of the law was however modified with the issuance of RMC No. 18-2013. The new RMC allowed the non-payment of excise tax on ethyl alcohol that were purchased after the issuance of RMC No. 3-2013 to be used as raw materials in the manufacture of compounded liquors provided certain requirements such as posting of surety bonds are complied with. RMC No. 18-2013, however, still maintained that taxes previously paid on the raw materials, i.e., ethyl alcohol/ethanol inventory, at the time of the effectivity of the new excise tax law are still not subject to refund/tax credit to the manufacturers.

Under RR No. 17-2012, the amount of excise tax that was disallowed for tax credit was ₱725.8 million (included under “Other current assets” in 2017). Said amount represented taxes paid previously on raw materials and were not allowed to be deducted from the excise taxes that became due on the finished goods as taxed under the new law. TDI is contesting the disallowance of the tax credit and is undertaking appropriate legal measures to obtain a favorable outcome.

TDI has paid a total of ₱45.9 million (included under “Other noncurrent assets” in 2017) in excise taxes for the raw materials that were purchased/imported for purposes of compounding during the subsistence of RMC No. 3-2013. TDI also would claim this amount on the basis that the RMC was issued without basis and beyond the authority granted by law to the administrative agency.

On February 8, 2019, TDI received the decision of the Court of Tax Appeals Second Division denying TDI’s claim for refund since TDI failed to prove that there is actual payment of the excise tax being claimed. On February 22, 2019, TDI filed a Motion for Reconsideration. As of December 31, 2018, TDI reclassified the prepaid excise tax amounting to ₱797.4 million from “Other current assets” to “Other noncurrent assets”.

Other Matter

Effluent Supply Agreement

On September 26, 2013, PNB and Aseagas Corporation (Aseagas) entered into an effluent (wastewater) supply agreement wherein PNB will supply effluent to Aseagas to be used in the generation of liquid bio-methane for a period of 20 years (delivery period) from the date Aseagas notifies PNB that the liquid bio-methane plant to be constructed by Aseagas becomes ready for commercial operations. The delivery period is renewable for another ten (10) years upon mutual agreement of both parties.

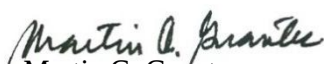
On January 15, 2018, Aseagas issued a letter notifying PNB for the termination of the Effluent Supply Agreement effective January 16, 2018.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of LT Group, Inc. and Subsidiaries as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated March 12, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-4 (Group A),

August 23, 2018, valid until August 22, 2021

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332557, January 3, 2019, Makati City

March 12, 2019

SGVFS032809

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE A. – Financial Assets
DECEMBER 31, 2018
(in thousands)

1 Financial Assets at Fair Value through Profit or Loss

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government securities				
Fixed Rate Treasury Notes	-	6,810,523	6,476,511	54,634
Republic of the Philippines (ROP) Bonds	-	8,956	452,272	17,174
Retail Treasury Bonds	-	916,726	877,637	28,707
Treasury Bills	-	668,494	651,293	-
US Treasury Notes	-	-	-	77
	-	8,404,699	8,457,713	100,592
Private debt securities				
Ayala Land Inc	-	14,900	13,656	465
Sm Prime Holdings Inc.	-	21,471	19,249	1,122
San Miguel Global Power Holdings Corp	-	275,400	248,690	17,940
International Container Terminal Services Inc.	-	50	2,732	99
Development Bank Of The Phils.	-	50	2,726	380
Security Bank	-	620	32,587	(4)
Phoenix Petroleum Phils.	-	100,000	95,943	73
	-	412,491	415,583	20,075

1 Financial Assets at Fair Value through Profit or Loss

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity securities				
Ayala Corp	-	-	14,589	-
Ayala Land Inc	175,000	-	7,105	-
Banco de Oro	106,000	-	11,772	-
D & L Industries Inc	100,000	-	4,392	-
Filinvest Land Inc	5,829,000	-	8,219	-
International Container Terminal Services	20,000	-	1,000	-
Manila Electric Company	9,350	-	2,793	-
Metro Pacific Investment Corporation	3,150,000	-	14,616	-
Metropolitan Bank & Trust	10,000	-	810	-
Philippine Long Distance Telephone Company	5,000	-	5,625	-
Puregold Price Club	140,000	-	6,020	-
SM Investments Corporation	8,000	-	7,340	-
Sm Prime Holdings	140,000	-	5,012	-
Wilcon	120,000	-	2,142	-
Del Monte	-	-	446,044	-
San Miguel Corp - Pref 2H	26,000	-	1,937	-
San Miguel Corp - Pref 2I	25,970	-	1,909	-
San Miguel Corp - Pref 2G	19,100	-	1,431	-

1 Financial Assets at Fair Value through Profit or Loss

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity securities				
GTCap Pref Series B	-	-	824	-
ALCO Preferred	7,000	-	679	-
Bank Of Philippine Islands	3,759	-	353	-
Union Bank Of The Philippines	3,385	-	216	-
Forest Hills Golf And Country Club	1	-	170	-
Rizal Commercial Banking Corp	3,946	-	112	-
Petro Energy Resources Corp	6,289	-	22	-
Global Ferro	10,375	-	17	-
	9,918,175	-	545,149	-

Derivatives

Republic Of The Philippines	-	14,463,444	57,854	-
Atlas Fertilizer Corporation	-	159,440	2,235	-
Australia And N. Zealand Bk	-	1,657,570	2,329	-
Banco De Oro Universal Bank	-	2,117,600	10,358	-
Bank Of China-Manila	-	19,137	1	-
Bank Of The Philippine Islands	-	793,170	4,566	-
BNP Paribas Paris	-	4,616,079	32,404	-
Chase Manhattan Bank Singapore	-	5,687,384	34,928	-

1 Financial Assets at Fair Value through Profit or Loss

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Derivatives				
CSFS-Credit Suisse London	-	7,656	33	-
China Banking Corporation	-	105,200	53	-
Citibank N.A. Manila Br.	-	843,825	2,393	-
Deutsche Bank Ag Mla Br	-	526,000	264	-
Ecosential Foods Corp.	-	488,863	3,154	-
Getz Advanced Materials, Inc.	-	3,267	5	-
Hongkong And Shanghai Banking Corp.	-	934,758	2,265	-
Internationale Nederlanden Bk Mla.	-	1,057,540	6,069	-
JPMorgan Chase Bank Mla.	-	2,110,625	7,639	-
Land Bank Of The Philippines	-	52,590	16	-
Metropolitan Bank And Trust Company	-	482,245	8,548	-
Mizuho Bank Ltd Manila	-	792,750	2,775	-
Petron Corporation	-	5,584,255	61,748	-
Philippine Business Bank	-	52,580	6	-
PNB Europe - Victoria Br	-	29,996	86	-
PNB Europe Plc	-	59,594	137	-
PNB Hongkong Branch	-	26,290	36	-
Security Bank Corporation	-	2,321,420	7,304	-
Standard Chartered Bank Ldn	-	7,904,035	307,091	-
UBS Ag	-	2,591,921	2,629	-
United Coconut Planters Bank	-	105,180	33	-
Wells Fargo Bank Na	-	4,908,172	15,904	-
Allied Bank Hongkong	-	432,949	1,765	-
	-	60,935,535	574,628	-
Designated at FVPL				
Peso Money Market Fund	-	770,523	789,949	-
Total Financial Assets at Fair Value through Profit or Loss	9,918,175	70,523,248	10,783,022	120,667

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government Securities				
Fixed Rate Treasury Notes	-	3,947,684	3,772,828	133,098
Power Sector Assets and Liabilities Management (	-	3,620,711	3,676,724	87,654
Republic of the Philippines (ROP) Bonds	-	15,631,719	16,819,726	608,179
Retail Treasury Bonds	-	6,392,043	6,148,248	263,496
Republic of Indonesia	-	2,148,981	2,163,895	51,124
U.S. Treasury	-	342,214	348,334	4,383
Small Business Loan asset backed securities	-	157,477	16,498	333
Treasury Bills - SGD	-	443,047	441,911	6,826
Philippine Sovereign Bonds (USD)	-	78,870	79,436	2,191
Treasury Notes -SGD	-	25,000	24,334	934
PNB Guam	-	-	-	130
Treasury Gilts	-	73,324	73,743	292
	-	32,861,070	33,565,677	1,158,640
Private Debt Securities				
Apple Inc	-	-	-	63
Agricultural Bank Of China Ltd HK	-	-	-	32,644
Ayala Land Inc	-	1,348,525	1,284,630	49,659
Bank Of China	-	-	-	26,655
Banco De Oro	-	969,838	925,164	29,780
China Construction Bank HK	-	-	-	13,670
China National Offshore Oil Corp Ltd	-	1,051,600	1,015,004	33,197
Cyberzone Properties Inc	-	-	-	226
Development Bank Of The Philippines	-	262,900	272,498	6,464
Energy Development Corp	-	232,440	241,299	8,702
	269			

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Private Debt Securities				
Export-Import Bank Of Korea	-	420,640	415,219	8,433
Filinvest Development Cayman Islands	-	362,802	362,813	11,461
Filinvest Land Inc	-	331,640	325,915	16,308
First Gen Corporation	-	-	-	2
FPC Finance Ltd	-	-	-	13,216
FPT Finance Limited	-	-	-	1,122
HSBC Holdings Plc	-	-	-	789
Hutchison Whampoa Limited	-	420,640	415,470	13,577
Industrial And Com Bank Of China Asia	-	210,320	215,483	9,738
Icici Bank Limited	-	105,160	108,457	3,461
International Container Terminal Services Inc.	-	2,302,320	2,532,203	88,828
Korea Development Bank	-	178,772	176,171	3,352
Metropolitan Bank & Trust Co.	-	567,100	509,622	30,482
Megaworld Corp	-	860,000	768,596	46,040
Philippine Savings Bank	-	75,000	66,409	4,125
Rizal Commercial Banking Corp	-	513,444	508,832	14,299
Security Bank Corp	-	126,192	126,106	2,657
State Bank Of India	-	525,800	515,776	14,890
Sinopec Corp	-	2,214,933	2,159,116	56,568
SM Investments Corp	-	1,641,951	1,643,853	55,215

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Private Debt Securities				
San Miguel Corp	-	94,900	85,696	5,983
SM Prime Holdings	-	208,827	204,546	2,542
South Luzon Tollway Corp	-	154,340	145,302	8,313
Standard Chartered Bank Ldn	-	-	-	2,803
STI Education	-	50,000	45,628	2,904
Westpac Bk Sydney	-	157,740	155,729	3,484
Sumitomo Bank Tky	-	-	-	2,831
Union Bank Of The Phil.	-	1,472,240	1,404,649	47,534
AT&T Inc.	-	683,540	684,695	19,433
Manila North Tollway Corporation Bonds	-	50,000	47,361	2,535
SM Prime Holdings, Inc.	-	90,600	85,052	4,447
South Luzon Tollway Corporation	-	50,000	46,832	2,790
SMC Global Power Bond	-	1,000	937	25
Phoenix CP	-	141,999	141,683	111
CPI	-	38,400	35,263	1,939
Investment in Management Account (IMA#263929)	-	-	-	146
SPURA	-	-	-	356,928
	-	17,915,603	17,672,009	1,060,371

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity Securities				
Allied Banker Insu.	200,000	-	20,000	-
Alphaland Balesin Island Resort Corp.	-	-	2,500	-
Apo Golf & Country Club	1	100	-	-
Aptrudev	-	1,500	1	-
Bacnotan Steel Industries	-	-	-	-
Baguio City Country Club	1	60	1	-
Baguio Gold Mining (Now:Pal Holdings)	-	99	-	-
Bancnet, Inc.	49,999	-	5,000	-
Bap Credit Guaranty	29,800	-	1,138	-
Bayantel	-	8	-	-
Bayantel 31% Tranche B Conv Eqty 83997Shs Bor	-	14,851	-	-
Bulawan Mining (Bumico)	2,500,000	20,492	-	-
Buona Sorte Holdings, Inc.	25,000,000	25,000	1,582,917	-
Camp John Hay	3	810	401	-
Club Filipino	1	12	1	-
Cruz Tel Co.	30	3	1	-
Development Academy Of The Philippines	-	1,500	-	-
Eagle Ridge Golf & Country Club	30	3,450	1	-
Eastridge Golf Course & Village	-	1,800	-	-

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity Securities				
Evercrest Golf	2	500	1,000	-
Fairways &Bluewater Resort	294	359,695	20,580	-
Fastech Synergy	-	8,519	-	-
Fil-Am Resources	-	27	-	-
Foremost Farms Inc.	92,990	93	258	-
Grandspan Development Corporation	30,000,000	30,000	68,160	-
Heavenly Garden	5,000	-	500	-
Himmel Industries	73	7,300	9	-
Iligan Golf & Country Club	1	1	1	-
Iloilo Golf & Country Club	-	88	-	-
Inco Mining	-	2	-	-
Infanta Minerals	-	10	-	-
Investment In Management Account (Ima#263929)	-	-	130,988	-
Lepanto Consolidated Mining Co."A"	4,973	1	-	-
Lepanto Consolidated Mining Co."B"	1,776	-	1	-
Lgu Guarantee Corp	50,000	5,000	5,001	-
Luisita Golf & Country Club	-	840	-	-
LT Group Inc.	4,974,794	82,582	5,771	-
Makati Sports Club-A	1	-	550	-

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity Securities				
Macroasia Corporation	170,950,000	434,452,000	2,906,150	-
Manila Golf Country Club-Corporate	202	14,007	185,001	-
Manila Polo Club	-	2,600	1	-
Manila Southwoods Golf Club	1	4,600	567	-
Marikudo Country Club Of Iloilo City	-	18	-	-
Meralco	2,873	89	2	-
Mimosa Golf & Country Club	1	827	1	-
Manila Southwoods Golf & Country Club	2	4,350	1,251	-
Mount Malarayat Golf & Country Club	35	36,892	1	-
Negros Occidental Golf & Country Club	1	100	-	-
Nidc Manila Polo Club	-	-	-	-
Northern Tel Co.	1,800	18	1	-
Orchard Golf & Country Club	1	2,200	1	-
PAL Holdings Inc	-	53,040	66,615	-
Paper Industries Corporation of the Philippines	-	19	-	-
PCDI Preferred Shares	3,855	23	22	-
Phil Dealing System-Fixed Income	73,000	7,300	-	-
Phil. Central Depository Inc.	24,436	3,669	1	-
Phil. Clearing House	42,000	2,100	2,101	-
Phil. Dealing House	-	-	7,300	-

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity Securities				
Phil. Depository & Trust Corp.-Bap As Trustee	31,690	-	2,392	-
Phil. Electric Corp Shares	-	95	1	-
Phil. Oil Development Company, Inc.	-	13	-	-
Philex Mining	151	-	-	-
Philippine Long Distance Company	2,880	89	1	-
Philippine Racing Club	30,331,103	-	287,236	-
Philodrill	695,625	-	8	-
Picop Resources	19,021,252	798	-	-
Piltel (Phil Tel Corp.)	-	10	-	-
PLDT Comm. And Energy Venture	20	9	1	-
PLDT Preferred Shares	-	1,084	1	-
PNB Management And Development Corp	-	-	1,933	-
PNB Venture	-	-	5,062	-
Primo Oleo Chemicals	-	66,382	-	-
Proton Chemical Industries Comm Shares	44,419	-	-	-
Philippine Stock Exchange Shares	17,820	5,212	3,188	-
Pt&T	5,000,000	-	-	-
Pueblo De Oro Golf ^ Country Club	2	1,411	1	-
Puerto Azul Sports & Beach Club	-	170	-	-

2 Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Equity Securities				
Quezon City Sports Club	1	32	1	-
Retelco	20	5	1	-
Riviera Golf & Country Club	6	2,627	220	-
Rural Bank Of Ibaday	1	11	-	-
Santa Elena Golf & Country Club	4	852	1	-
Sierra Grande Country	100	-	32	-
Small Business Guarantee	400,000	40,000	40,000	-
Southern Iloilo Telephone Co.	1	2	1	-
Sta Elena Golf Club-A	4	-	16,500	-
Subic Bay Golf & Country Club	-	950	-	-
Subic Bay Yatch Club	58	93,000	3,480	-
Swift - ABC	-	-	-	-
Swift Shareholders - PNB	-	-	-	-
Tagaytay Highlands	268	147,500	134,000	-
Tagaytay Midlands	1	500	650	-
Tayud Golf & Country Club	-	6	-	-
Ternate DevT Corporation	-	-	170	-
Universal Rightfield Prop. Inc.	-	69	1	-
United Doctors Service Corporation	233,166	3,730	12,473	-
University of the East	1,226,531	26,250	25,200	-
Valley Golf & Country Club	1	231	431	-
Victorias Golf & Country Club	-	110	-	-
Wack Wack Golf & Country Club	29	114,080	562,001	-
Western Minolco Corp.	-	17	-	-
	291,013,129	435,653,440	6,108,781	-
Total Financial Assets at Fair Value Through Other Comprehensive Income	291,013,129	486,430,113	57,346,467	2,219,011

3 Financial Assets at Amortized Cost

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government Securities				
Republic of the Philippines (ROP) Bonds	-	1,039,096,544	6,686,044	180,246
Development Bank of the Philippines	-	2,140,216	2,224,272	52,826
Fixed Rate Treasury Notes	-	25,425,999	18,776,611	526,817
Bangko Sentral ng Pilipinas	-	157,740	220,104	-
Province of Aklan (Caticlan Super Marina)	-	-	43,294	3,149
Landbank of the Phils	-	-	150,769	11,242
National Food Authority	-	-	-	1,829
Home Guaranty Corp	-	-	49,372	252
Power Sector Assets and Liabilities Management (	-	5,323,357	6,325,632	168,737
Retail Treasury Bonds	-	4,627,034	11,473,064	378,088
Republic of Indonesia	-	7,079,634	7,633,616	178,233
Treasury Bills	-	6,694,230	6,468,422	117,189
United Kingdom	-	26,290	33,460	79
Federal National Mortgage Association (FNMA)	-	42,064	41,964	827
US Treasury Notes	-	89,386	89,165	1,286
Federal Reserve - U102 acct.	-	5,531	5,526	-
PNB Hongkong	-	-	-	(3)
	-	1,090,708,025	60,221,315	1,620,797

3 Financial Assets at Amortized Cost

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Private Debt Securities				-
Apple Incorporated	-	525,800	530,241	9,383
Agricultural Bank Of China Limited	-	6,572,500	6,774,752	58,752
Ayala Land Incorporated	-	234,950	238,830	11,194
Alibaba Group Holdings	-	265,529	264,247	3,890
Bank of China	-	420,640	443,191	34,111
Banco De Oro	-	2,990,750	2,953,994	85,909
Bank of China Limited, Singapore Branch	-	2,629,000	2,611,453	11,633
China Construction Bank	-	4,732,200	4,697,498	36,269
China National Offshore Oil Corp Limited	-	210,320	204,193	5,779
Cyberzone Properties Incorporated	-	803,680	802,957	40,357
Energy Development Corporation	-	-	-	36
Export-Import Bank of Korea	-	473,220	477,054	12,059
Filinvest Development Cayman Islands	-	1,309,242	1,316,318	19,600
First Gen Corporation	-	-	-	452
FPC Capital Limited	-	2,103,200	2,099,905	72,118
Filinvest Land Incorporated	-	386,590	386,930	20,458
FPC Treasury Limited	-	465,333	461,236	8,835
Global Steel (NSC)	-	-	-	-
Hutchison Whampoa	-	1,061,064	1,128,552	27,623
Industrial And Commercial Bank of China Asia	-	-	-	20,823
Icici Bank Limited	-	904,902	913,138	27,219
International Container Terminal Services Incorpora	-	141,966	146,785	5,445
Korea Development Bank	-	210,320	220,202	4,886
Pilipinas Hino Incorporated	-	-	-	-
Phoenix Petroleum Philippines	-	2,399,300	2,266,136	2,177
Rizal Commercial Banking Corporation	-	1,140,881	1,121,487	28,065
Sinopec Corporation	-	1,682,560	1,734,646	53,172
South Luzon Tollway Corporation	-	120	117	3
SM Prime Holdings	-	300,000	299,730	15,419
AT&T Incorporated	-	841,280	846,944	28,317
Union Bank	-	1,672,044	1,615,357	40,379
Vista Land and Lifescapes	-	5,000,000	4,995,501	10,125
	-	39,477,391	39,551,394	694,488
Total Financial Assets at Amortized Cost	-	1,130,185,416	99,772,709	2,315,285

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE B. – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
DECEMBER 31, 2018
(in thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Related party:							
Tangent Holdings Corporation	509,000	-	-	-	509,000	-	509,000
	509,000	-	-	-	509,000	-	509,000

Other than the above related party, all amounts receivable from Directors, Officers, Employees, other Related Parties and Principal Stockholders pertained to purchases subject to usual terms, for ordinary travel and expense advances and for other such items arose in the ordinary course of business were excluded.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE C. – Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements
DECEMBER 31, 2018
(in thousands)

Name and Designation of Debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Allmark Holdings Corp.	7,535	-	-	-	7,535	-	7,535
Caravan Holdings Corp.	12,830	-	-	-	12,830	-	12,830
Dunmore Development Corp.	2,840	-	(2,840)	-	-	-	-
Eton Properties Philippines, Inc.	656	443,344	-	-	444,000	-	444,000
Fil-Care Holdings, Inc.	12,930	-	-	-	12,930	-	12,930
Ivory Holdings, Inc.	8,945	-	-	-	8,945	-	8,945
Kenrock Holdings Corp.	14,110	-	-	-	14,110	-	14,110
Kentwood Development Corp.	4,050	-	(4,050)	-	-	-	-
La Vida Development Corp.	15,090	-	(15,090)	-	-	-	-
Leadway Holdings, Inc.	36,500	-	-	-	36,500	-	36,500
Merit Holdings & Equities Corp.	175	-	(175)	-	-	-	-
Multiple Star Holdings Corp.	9,550	-	(9,550)	-	-	-	-
Pioneer Holdings Equities, Inc.	3,500	-	(3,500)	-	-	-	-
Society Holdings Corp.	9,600	-	-	-	9,600	-	9,600
Solar Holdings Corp.	20,300	-	-	-	20,300	-	20,300
Tanduay Brands International, Inc.	-	-	-	-	-	-	-
Tanduay Distillers, Inc.	500,339	449,710	-	-	950,049	-	950,049
Total Holdings, Corp.	1,970	(1,970)	-	-	-	-	-
	660,920	891,084	(35,205)	-	1,516,799	-	1,516,799

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE D. – Intangible Assets – Other Assets
DECEMBER 31, 2018
(in thousands)

Description	Beginning balance	Additions at cost	Charged to costs and expenses	Disposals	Other changes, additions (deductions)	Ending Balance
Goodwill	₱163,735	–	–	–	–	₱163,735
Software	2,288,924	719,376	(375,042)	–	(326,693)	2,306,565

Intangibles are presented in “Other noncurrent assets” in the consolidated balance sheets.

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE E. – Long term debts
DECEMBER 31, 2018
(in thousands)

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption “Short-term and long-term debt current” in related balance sheet	Amount shown under caption “Long-term debt net of current portion” in related balance sheet
1. Bonds payable			₱15,661,372
2. Unsecured term loan		–	2,893,952
3. Note payable		₱90,829	–

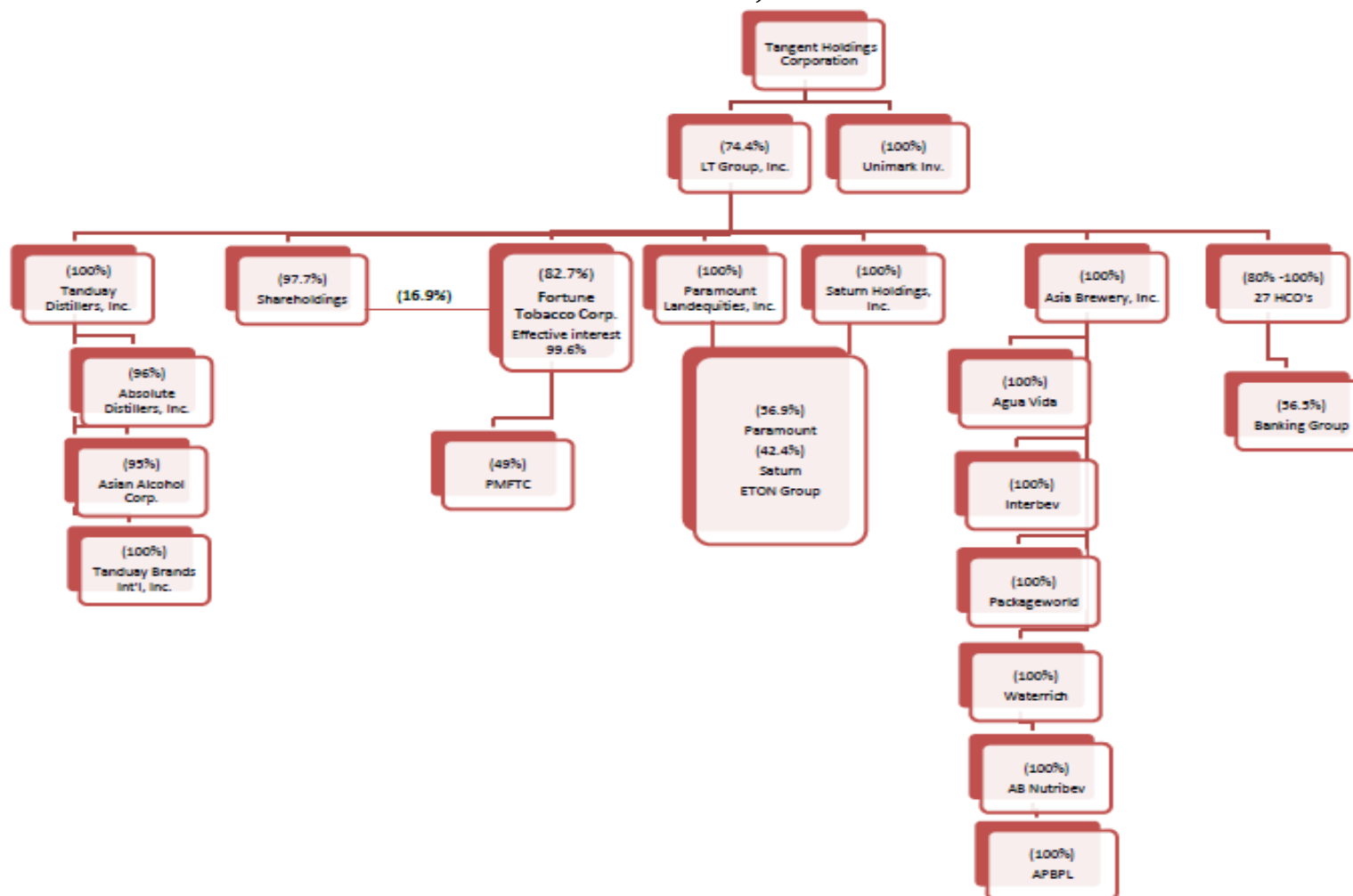
LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE H - Capital Stock
DECEMBER 31, 2018

Title of Issue	Number of Shares Authorized	Number of Shares Issued And Outstanding as Shown under Related Balance Sheet caption	Number of shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of shares Held by related Parties	Directors, Officers and Employees	Others
Common Stock	25,000,000,000	10,821,388,889	-	8,046,318,193	18,300	2,775,052,396

LT GROUP, INC.
SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2018

Unappropriated retained earnings as of December 31, 2017, as adjusted to available for dividend declaration	₱12,086,389,819
Add: Net income actually earned/realized during the period	
Net income during the period closed to Retained Earnings	₱4,558,068,209
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	—
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	—
Unrealized actuarial gain	—
Fair value adjustment (M2M gains)	14,488,061
Fair value adjustment of investment property resulting to gain	—
Adjustment due to deviation from PFRS/GAAP - gain	—
Movement of deferred income tax assets	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
Add: Non-actual losses	—
Depreciation on revaluation increment (after tax)	—
Movement of deferred income tax assets	—
Adjustment due to deviation from PFRS/GAAP - loss	—
Loss on fair value adjustment of investment property (after tax)	—
Net income actually earned during the year	4,543,580,148
Adjustments:	
Appropriation of retained earnings during the year	—
Dividend declarations during the year	(2,164,277,778)
Reversal of appropriations during the year	—
Effects of prior year adjustments	—
Treasury shares	—
	(2,164,277,778)
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 2018	₱14,465,692,189

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE J – Relationships between & among the Group and its Parent
DECEMBER 31, 2018



LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE K – List of all effective Standards and Interpretations under the
Philippine Financial Reporting Standards (PFRS) effective as of
DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosure of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners	✓		
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies	✓		
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓
Philippine Interpretation SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases - Incentives			✓
Philippine Interpretation SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets - Web Site Costs	✓		

LT GROUP, INC. AND SUBSIDIARIES
SCHEDULE L – Index to Exhibits
SEC FORM 17-A

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(10) Annual Report to Security Holders, FORM 17-Q or Quarterly Reports To Security Holders	*
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(30) Duly verified resolution of the issuer's Board of Directors	*

These exhibits are either not applicable to the Group or require no answer.

EXHIBIT 18 Subsidiaries of the Registrant

LT GROUP, Inc. has the following subsidiaries as of December 31, 2018:

Distilled Spirits

Jurisdiction

1. TDI and subsidiaries
 - a. Absolut Distillers, Inc.
 - b. Asian Alcohol Corp
 - c. Tanduay Brands Int'l Inc.

Philippines

Beverages

- ABI and subsidiaries
- a. Agua Vida Systems, Inc.
 - b. Interbev Philippines, Inc.
 - c. Waterich Resources Corporation
 - d. Packageworld, Inc.
 - e. AB Nutribev, Inc.
 - f. Asia Pacific Beverage Pte. Ltd.

Philippines

Tobacco

Fortune Tobacco Corp.

Philippines

Banking

- a. PNB and subsidiaries (see page 7)
- b. Bank Holding Companies (see page 8)

Philippines

Philippines

Property Development

- a. Saturn
- b. Paramount
 1. Eton
 - i. Belton Communities, Inc. (BCI)
 - ii. Eton City, Inc. (ECI)
 - iii. FirstHomes, Inc. (FHI)

Philippines

Philippines

Philippines

EXHIBIT 28. Additional Exhibits - Other Documents to be filed with the Consolidated Financial Statements

I. FINANCIAL SOUNDNESS INDICATORS

	2018	2017
Current Ratio	0.61	0.62
Debt to Equity Ratio	3.75	3.70
Asset to Equity Ratio	4.75	4.70
Interest Rate Coverage Ratio	205.25	154.00
Solvency Ratio	1.27	1.27
Profitability Ratios:		
Profit Margin	0.21	0.17
Return on Asset (ROA)	0.015	0.012
Return on Equity (ROE)	0.094	0.073