



**JG SUMMIT  
HOLDINGS, INC.**

43<sup>rd</sup> FLOOR ROBINSONS EQUITABLE TOWER ASB AVE. COR. POVEDA RD. ORTIGAS CENTER, PASIG CITY  
TEL. NO.: 633-7631, 637-1670, 240-8801 FAX NO.: 633-9387 OR 633-9207

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

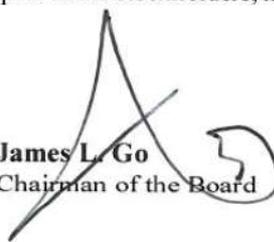
The management of JG Summit Holdings, Inc. and Subsidiaries (collectively referred to as the Group) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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.

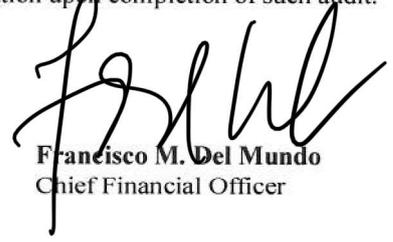
The Board of Directors (BOD) is responsible for overseeing the Group’s financial reporting process.

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

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

  
**James L. Go**  
Chairman of the Board

  
**Lance Y. Gokongwei**  
President & Chief Executive Officer

  
**Francisco M. Del Mundo**  
Chief Financial Officer

Subscribed and Sworn to before me in the City of \_\_\_\_\_ this April \_\_\_\_, 2019 affiants(s) exhibiting to me his Residence Certificates/Passport, as follows:

| <u>Names</u>           | <u>CTC No.</u>         | <u>Date of Issue</u> | <u>Place of Issue</u> |
|------------------------|------------------------|----------------------|-----------------------|
| James L. Go            | 14503308               | 01/21/2020           | Pasig City            |
| Lance Y. Gokongwei     | 14503307               | 01/21/2020           | Pasig City            |
| Francisco M. Del Mundo | Passport No. P9624564A |                      |                       |

Doc. No. \_\_\_\_\_  
Book No. \_\_\_\_\_  
Page No. \_\_\_\_\_  
Series of \_\_\_\_\_

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
JG Summit Holdings, Inc.  
43rd Floor, Robinsons-Equitable Tower  
ADB Avenue corner Poveda Road, Pasig City

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

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

## **Real Estate Revenue Recognition**

The Group's revenue recognition process, policies and procedures are significant to our audit because these involve application of significant judgment and estimation in the following areas: (1) assessment of the probability that the entity will collect the consideration from the buyer; (2) determination of the transaction price; (3) application of the input method as the measure of progress in determining real estate revenue; and (4) determination of the actual costs incurred as cost of sales .

In evaluating whether collectability of the amount of consideration is probable, the Group considers the significance of the buyer's initial payments in relation to the total contract price (or buyer's equity). Collectability is also assessed by considering factors such as past history with the buyer, age and pricing of the property. Management regularly evaluates the historical sales cancellations and back-outs if it would still support its current threshold of buyers' equity before commencing revenue recognition.

In determining the transaction price, the Group considers the selling price of the real estate property and other fees and charges collected from the buyers that are not held on behalf of other parties.

In measuring the progress of its performance obligation over time, the Group uses input method. Under this method, progress is measured based on actual costs incurred on materials, labor, and actual overhead relative to the total estimated development costs of the real estate project. The Group uses the cost accumulated by the accounting department to determine the actual costs incurred. The estimation of the total costs of the real estate project requires technical inputs by project engineers.

In determining the actual costs incurred to be recognized as cost of sales, the Group estimates costs incurred on materials, labor and overhead which have not yet been billed by the contractor.

The disclosures related to the real estate revenue are included in Notes 2, 3 and 26 to the consolidated financial statements.

### *Audit Response*

We obtained an understanding of the revenue recognition process.

For the buyers' equity, we evaluated management's basis of the buyer's equity by comparing this to the historical analysis of sales collections from buyers with accumulated payments above the collection threshold. We validated the analysis through examination of the list of cancelled sales and sales listing.

For the determination of the transaction price, we obtained an understanding of the nature of other fees charged to the buyers. For selected contracts, we agreed the amounts excluded from the transaction price against the expected amounts required to be remitted to the government based on existing tax rules and regulations (e.g., documentary stamp taxes, transfer taxes and real property taxes).

For the application of the input method in determining real estate revenue and for determining cost of sales, we obtained an understanding of the Group's processes for determining the percentage of completion (POC), including the cost accumulation process, and for determining and updating of total estimated costs, and performed tests of the relevant controls on these processes. We assessed the competence and objectivity of the project engineers by reference to their qualifications, experience and reporting responsibilities. For selected projects, we traced costs accumulated, including those incurred but not yet billed costs, to the supporting documents such as purchase order, billings and invoices of

contractors and other documents evidencing receipt of materials and services from contractors. We visited selected project sites and made relevant inquiries with project engineers. We performed test computation of the percentage of completion calculation of management. For selected projects, we obtained the approved total estimated costs and any revisions thereto and the supporting details such as capital fulfillment plan, capital expenditure requests and related executive committee approvals. We likewise performed inquiries with the project engineers for the revisions.

### **Recoverability of Goodwill and Intangible Assets**

As of December 31, 2019, the Group's goodwill attributable to the acquisition of Consolidated Snacks, Pty. Ltd., Griffin's Food Limited and other entities amounted to ₱32.0 billion. The Group's intangible assets with indefinite useful lives pertaining to trademarks and product formulation amounted to ₱9.4 billion and ₱0.4 billion, respectively. These items are significant to the consolidated financial statements. Under PFRS, the Group is required to test annually the amount of goodwill and intangible assets with indefinite useful lives for impairment. Accordingly, management has performed an impairment test on its goodwill and other intangible assets with indefinite useful lives. Management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate, discount rate and the long-term growth rate in determining value-in-use, as well as EBITDA multiples in estimating fair value less cost to sell.

The disclosures in relation to goodwill and intangible assets are included in Notes 3, 18 and 19 to the consolidated financial statements.

#### *Audit response*

We reviewed the value-in-use and fair value less cost to sell (FVLCTS) calculations prepared by management. We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate, discount rate and the long-term growth rate in determining value-in-use, as well as EBITDA multiples. We compared the key assumptions used, such as revenue growth rate against the historical performance of the cash generating unit, industry/market outlook and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. For FVLCTS calculations, we evaluated the reasonableness of the valuation by comparison with recent comparable market transactions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and intangible assets with indefinite useful lives.

### **Accounting for Investment in an Associate**

The Group has an investment in Manila Electric Company (Meralco) that is accounted for under the equity method. For the year ended December 31, 2019, the Group's share in the net income of Meralco amounted to ₱6.7 billion and accounts for 16% of the Group's consolidated net income.

The Group's share in Meralco's net income is significantly affected by Meralco's revenues from the sale of electricity which arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within Meralco's franchise area. The revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over

the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes; and (c) the reliability of the IT systems involved in processing the billing transactions. In addition, Meralco is involved in certain proceedings and claims for which Meralco has recognized provisions for probable costs and/or expense, which may be incurred, and/or has disclosed relevant information about such contingencies. The determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

The disclosures in relation to investments in associates are included in Note 14 to the consolidated financial statements.

#### *Audit response*

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer master file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the bill amounts using the Energy Regulatory Commission-approved rates and formulae, as well as actual costs incurred, and compared them with the amounts reflected in the billing statements. We involved our internal specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT system supporting the revenue process.

We also examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized, and involved our internal specialists when necessary. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from internal and external legal counsels. We evaluated the position of the management by considering the relevant laws, rulings and jurisprudence.

We obtained the financial information of Meralco for the year ended December 31, 2019 and recomputed the Group's share in total comprehensive income for the year ended December 31, 2019.

#### **Adequacy of Allowance for Credit Losses on Finance Receivables from the Banking Segment**

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

Refer to Notes 3 and 11 to the consolidated financial statements for the disclosures on the details of the allowance for credit losses using the ECL models.

#### *Audit response*

We obtained an understanding of the methodologies and models used for the Group's different credit exposures and assessed whether these considered the requirements of PFRS 9, *Financial Instruments*,

to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed 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) reviewed loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used 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 model through backtesting of prior year loss rates versus actual observed default rates.

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 per portfolio basis. We reviewed the completeness of the disclosures made in the financial statements.

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

### **Adoption of PFRS 16, *Leases***

Effective January 1, 2019, the Group adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the Group has high volume of lease agreements; the recorded amounts are material to the consolidated financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group is reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liability amounting to ₱18.6 billion and ₱19.3 billion, respectively, as of January 1, 2019, and the recognition of depreciation expense and interest expense of ₱6.6 billion and ₱715.2 million, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2, 3 and 42 to the consolidated financial statements.

#### *Audit response*

We obtained an understanding of the Group's process in implementing the new standard on leases, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemption, the selection of the transition approach and any election of available practical expedients.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate.

We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

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

#### **Impairment Testing of Property, Plant and Equipment**

As of December 31, 2019, the Group's property, plant and equipment relating to its petrochemicals business amounted to ₱40.7 billion. In 2014, an impairment provision was recorded to reduce the carrying values of machinery and equipment, and building and improvements to their recoverable values. In 2019, the Group made a capital investment amounting to ₱17.0 billion to the petrochemical business to fund its turnaround maintenance and reliability improvements in its building and expansion projects with the goal of introducing new products in 2020. Following a review of the business, the outlook for the industry and operating plans, management has assessed the carrying values of machinery and equipment, and building and improvements and a reversal of impairment loss of ₱2.3 billion has been recorded to adjust the carrying values of certain machinery and equipment, and building and improvements to their estimated recoverable values, which is the higher of fair value less cost of disposal and value-in-use. Management's assessment process requires significant judgment and is based on assumptions, specifically revenue growth rate and discount rate.

The disclosures in relation to property, plant and equipment and the related reversal of impairment losses are included in Notes 3, 16 and 34 to the consolidated financial statements.

#### *Audit response*

We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate and discount rate. We compared the key assumptions used such as revenue growth rate against the historical performance of the cash generating unit, industry/market outlook, and other relevant external data. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of property and equipment.

## **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, 2019 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, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of

not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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



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The engagement partner on the audit resulting in this independent auditor's report is Vicky Lee Salas.

SYCIP GORRES VELAYO & CO.

*Vicky Lee Salas*  
Vicky Lee Salas  
Partner

CPA Certificate No. 86838

SEC Accreditation No. 0115-AR-4 (Group A),  
April 16, 2019, valid until April 15, 2022

Tax Identification No. 129-434-735

BIR Accreditation No. 08-001998-53-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 8125248, January 7, 2020, Makati City

April 13, 2020

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

|   | December 31      |                  |
|---|------------------|------------------|
|   | 2019             | 2018             |
| <b>ASSETS</b>   |                  |                  |
| <b>Current Assets</b>   |                  |                  |
| Cash and cash equivalents (Note 7)  | P64,343,249,162  | P49,194,676,441  |
| Financial assets at fair value through profit or loss (Note 9)              | 4,384,644,970    | 3,650,524,523    |
| Financial assets at fair value through other comprehensive income (Note 10) | 22,259,890,046   | 23,915,670,876   |
| Receivables (Note 11)   | 47,712,909,823   | 43,675,353,273   |
| Inventories (Note 12)   | 68,513,876,509   | 63,472,037,028   |
| Biological assets (Note 17)   | 733,435,525      | 741,719,637      |
| Contract assets (Note 26)   | 3,007,038,670    | 5,088,356,660    |
| Other current assets (Note 13)  | 23,200,634,578   | 24,566,599,212   |
| Total Current Assets  | 234,155,679,283  | 214,304,937,650  |
| <b>Noncurrent Assets</b>  |                  |                  |
| Financial assets at fair value through other comprehensive income (Note 10) | 24,050,346,528   | 19,457,411,625   |
| Receivables (Note 11)   | 60,913,547,800   | 49,851,486,164   |
| Investment securities at amortized cost (Note 10)                           | 11,357,261,241   | 12,597,089,717   |
| Investments in associates and joint ventures (Note 14)                      | 151,691,572,588  | 144,914,597,233  |
| Property, plant and equipment (Note 16)                                     | 259,242,816,964  | 218,273,655,227  |
| Investment properties (Note 15)   | 99,000,246,036   | 93,816,970,875   |
| Right-of-use assets (Note 42)   | 20,531,421,297   | -                |
| Contract assets (Note 26)   | 7,843,135,383    | 6,444,995,326    |
| Goodwill (Note 19)  | 32,005,604,356   | 32,005,604,356   |
| Intangible assets (Note 18)   | 13,898,390,399   | 13,954,424,592   |
| Biological assets (Note 17)   | 224,128,072      | 366,184,414      |
| Other noncurrent assets (Note 20)   | 13,395,368,730   | 13,299,658,655   |
| Total Noncurrent Assets   | 694,153,839,394  | 604,982,078,184  |
|   | P928,309,518,677 | P819,287,015,834 |
| <b>LIABILITIES AND EQUITY</b>   |                  |                  |
| <b>Current Liabilities</b>  |                  |                  |
| Accounts payable and accrued expenses (Notes 21 and 42)                     | P146,327,371,857 | P132,655,835,417 |
| Short-term debts (Note 23)  | 54,047,410,004   | 35,453,723,993   |
| Current portion of long-term debts (Note 23)                                | 6,819,093,642    | 30,962,269,832   |
| Contract liabilities (Note 26)  | 14,184,663,585   | 12,931,513,843   |
| Income tax payable  | 1,771,270,985    | 1,776,773,241    |
| Other current liabilities (Note 22)   | 21,989,131,302   | 15,639,061,129   |
| Total Current Liabilities   | 245,138,941,375  | 229,419,177,455  |
| <b>Noncurrent Liabilities</b>   |                  |                  |
| Long-term debts - net of current portion (Note 23)                          | 212,116,441,065  | 179,286,697,516  |
| Deferred tax liabilities (Note 38)  | 8,318,082,154    | 7,877,223,942    |
| Contract liabilities (Note 26)  | 2,958,482,166    | 2,378,690,953    |
| Other noncurrent liabilities (Note 24)                                      | 51,130,429,050   | 32,847,365,429   |
| Total Noncurrent Liabilities  | 274,523,434,435  | 222,389,977,840  |
| Total Liabilities   | 519,662,375,810  | 451,809,155,295  |

(Forward)

|  | <b>December 31</b>      |                         |
|--|-------------------------|-------------------------|
|  | <b>2019</b>             | <b>2018</b>             |
| <b>Equity</b>  |                         |                         |
| Equity attributable to equity holders of the Parent Company: |                         |                         |
| Paid-up capital (Note 25)                                    | <b>₱30,755,866,814</b>  | ₱30,755,866,814         |
| Retained earnings (Note 25)                                  | <b>267,972,795,556</b>  | 239,101,689,440         |
| Equity reserve (Note 25)                                     | <b>30,870,148,859</b>   | 29,573,169,046          |
| Other comprehensive losses (Note 36)                         | <b>(24,787,168,710)</b> | (22,844,854,470)        |
|  | <b>304,811,642,519</b>  | 276,585,870,830         |
| Non-controlling interests (Note 25)                          | <b>103,835,500,348</b>  | 90,891,989,709          |
| <b>Total Equity</b>  | <b>408,647,142,867</b>  | <b>367,477,860,539</b>  |
|  | <b>₱928,309,518,677</b> | <b>₱819,287,015,834</b> |

*See accompanying Notes to Consolidated Financial Statements.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | Years Ended December 31 |                        |                        |
|---|-------------------------|------------------------|------------------------|
|   | 2019                    | 2018                   | 2017                   |
| <b>REVENUE</b>  |                         |                        |                        |
| Sale of goods and services (Note 26):   |                         |                        |                        |
| Foods   | ₱134,174,527,579        | ₱127,769,949,329       | ₱125,007,824,013       |
| Air transportation  | 84,806,810,363          | 74,113,776,885         | 68,029,131,426         |
| Real estate and hotels  | 30,210,187,210          | 29,467,564,096         | 22,448,257,224         |
| Petrochemicals  | 29,053,982,086          | 42,351,966,134         | 41,406,489,496         |
| Banking   | 8,121,662,955           | 6,132,382,567          | 4,475,828,582          |
| Equity in net earnings of associates and joint ventures (Note 14)                                       | 13,357,511,170          | 10,181,841,883         | 9,908,717,906          |
| Dividend income (Note 28)   | 1,348,711,916           | 1,227,572,942          | 1,451,837,755          |
| Supplementary businesses  | 749,175,892             | 670,963,828            | 717,368,505            |
|   | <b>301,822,569,171</b>  | <b>291,916,017,664</b> | <b>273,445,454,907</b> |
| <b>COST OF SALES AND SERVICES</b>   |                         |                        |                        |
| Cost of sales (Note 30)   | 122,977,293,487         | 129,734,114,999        | 119,176,312,217        |
| Cost of services (Note 30)  | 66,804,207,760          | 63,858,758,345         | 52,378,128,769         |
|   | <b>189,781,501,247</b>  | <b>193,592,873,344</b> | <b>171,554,440,986</b> |
| <b>GROSS INCOME</b>   | <b>112,041,067,924</b>  | <b>98,323,144,320</b>  | <b>101,891,013,921</b> |
| <b>NET OPERATING EXPENSES</b>   |                         |                        |                        |
| General and administrative expenses (Note 31)   | 57,983,100,861          | 52,912,530,779         | 49,910,047,737         |
| Provision for (reversal of) impairment losses and others (Note 34)                                      | (2,144,968,452)         | 145,801,581            | 248,080,372            |
|   | <b>55,838,132,409</b>   | <b>53,058,332,360</b>  | <b>50,158,128,109</b>  |
| <b>OPERATING INCOME</b>   | <b>56,202,935,515</b>   | <b>45,264,811,960</b>  | <b>51,732,885,812</b>  |
| <b>OTHER INCOME (LOSSES)</b>  |                         |                        |                        |
| Financing costs and other charges (Note 35)   | (10,965,846,901)        | (9,635,374,773)        | (7,836,137,934)        |
| Finance income (Note 27)  | 2,096,212,143           | 1,745,547,717          | 1,243,424,967          |
| Foreign exchange gains (losses)   | 828,657,682             | (2,854,338,888)        | (902,717,961)          |
| Market valuation gains (losses) on financial assets at fair value through profit or loss - net (Note 9) | 703,885,932             | (683,102,223)          | 696,406,991            |
| Market valuation losses on derivative financial instruments - net (Note 8)                              | (63,352,472)            | (336,784,218)          | (155,230,460)          |
| Others (Notes 21 and 29)  | (764,665,540)           | (459,468,426)          | 241,871,584            |
|   | <b>48,037,826,359</b>   | <b>33,041,291,149</b>  | <b>45,020,502,999</b>  |
| <b>INCOME BEFORE INCOME TAX</b>   | <b>48,037,826,359</b>   | <b>33,041,291,149</b>  | <b>45,020,502,999</b>  |
| <b>PROVISION FOR INCOME TAX</b> (Note 38)   | <b>5,372,314,510</b>    | <b>5,143,793,706</b>   | <b>5,501,468,891</b>   |
| <b>NET INCOME</b>   | <b>42,665,511,849</b>   | <b>27,897,497,443</b>  | <b>39,519,034,108</b>  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b> (Note 36)  |                         |                        |                        |
| Items that may be reclassified subsequently to profit or loss:  |                         |                        |                        |
| Cumulative translation adjustments  | 1,200,011,485           | 1,486,465,748          | (1,183,796,363)        |
| Net gains (losses) on financial assets at FVOCI (debt securities)                                       | 1,496,992,980           | (2,041,409,693)        | -                      |
| Share in the net unrealized gains (losses) on financial assets at FVOCI of associates (debt securities) | 176,256,150             | (137,490,800)          | -                      |
| Net gains (losses) from cash flow hedges (Note 8)   | 175,171,778             | (3,336,553)            | (11,359,660)           |
| Share in net unrealized gains on available-for-sale investments of an associate (Notes 10 and 14)       | -                       | -                      | 24,394,385             |
| Net gains on available-for-sale investments (Note 10)   | -                       | -                      | 1,759,433,181          |

(Forward)

|  | <b>Years Ended December 31</b> |                  |                 |
|--|--------------------------------|------------------|-----------------|
|  | <b>2019</b>                    | <b>2018</b>      | <b>2017</b>     |
| <b>Items that will not be reclassified to profit or loss:</b>  |                                |                  |                 |
| Net losses on financial assets at FVOCI (equity securities)<br>(Note 10)                             | <b>(₱2,403,711,068)</b>        | (₱5,897,064,704) | ₱-              |
| Remeasurements of the net defined benefit liability<br>(Note 37)                                     | <b>(588,565,201)</b>           | 312,977,712      | 116,814,170     |
| Share in remeasurements of the net defined benefit<br>liability of associates (Note 14)              | <b>(1,170,380,505)</b>         | 387,758,074      | (326,973,548)   |
| Share in the net unrealized losses on financial assets at<br>FVOCI of associates (equity securities) | -                              | (3,913,766)      | -               |
|  | <b>(1,114,224,381)</b>         | (5,896,013,982)  | 378,512,165     |
| <b>TOTAL COMPREHENSIVE INCOME</b>  | <b>₱41,551,287,468</b>         | ₱22,001,483,461  | ₱39,897,546,273 |
| <b>NET INCOME ATTRIBUTABLE TO</b>  |                                |                  |                 |
| Equity holders of the Parent Company   | <b>₱31,285,246,332</b>         | ₱19,186,040,273  | ₱29,369,537,456 |
| Non-controlling interests (Note 25)  | <b>11,380,265,517</b>          | 8,711,457,170    | 10,149,496,652  |
|  | <b>₱42,665,511,849</b>         | ₱27,897,497,443  | ₱39,519,034,108 |
| <b>TOTAL COMPREHENSIVE INCOME</b>  |                                |                  |                 |
| <b>ATTRIBUTABLE TO</b>   |                                |                  |                 |
| Equity holders of the Parent Company   | <b>₱29,342,932,092</b>         | ₱12,843,653,219  | ₱30,338,629,205 |
| Non-controlling interests (Note 25)  | <b>12,208,355,376</b>          | 9,157,830,242    | 9,558,917,068   |
|  | <b>₱41,551,287,468</b>         | ₱22,001,483,461  | ₱39,897,546,273 |
| <b>Earnings Per Share Attributable to Equity Holders of the</b>                                      |                                |                  |                 |
| <b>Parent Company (Note 39)</b>  |                                |                  |                 |
| Basic/diluted earnings per share   | <b>₱4.37</b>                   | ₱2.68            | ₱4.10           |

*See accompanying Notes to Consolidated Financial Statements.*

# JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2019, 2018 and 2017

### ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

|   | Paid-up Capital (Note 25) |                            | Retained Earnings (Note 25)    |                              | Total            |                 | Equity Reserve                 |       | Cumulative Translation Adjustments |                               | Net Unrealized Gains (Losses) Available-for-Sale Investments |                               | Net (Unrealized) Gain (Loss) on Financial Assets at FVOCI |                               | Other Comprehensive Income (Note 36) |                               | Total Other Comprehensive Income (Loss) |                               | Controlling Interests         |                               | Non-Controlling Interests     |                               | Total Equity                  |                               |                               |
|---|---------------------------|----------------------------|--------------------------------|------------------------------|------------------|-----------------|--------------------------------|-------|------------------------------------|-------------------------------|--|-------------------------------|---|-------------------------------|--------------------------------------|-------------------------------|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | Capital Stock             | Additional Paid-in Capital | Unrestricted Retained Earnings | Restricted Retained Earnings | Equity Reserve   | Adjustments     | Available-for-Sale Investments | FVOCI | Net Unrealized Gains (Losses)      | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses)                                | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses)                             | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses)        | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses)           | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses) | Net Unrealized Gains (Losses) |
| Balance at January 1, 2019  | \$7,202,841,657           | \$23,553,025,157           | \$117,784,329,399              | \$117,784,329,399            | \$29,573,169,046 | (\$538,392,593) | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Effect of adoption of new accounting standard and interpretation (Note 2) | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Balance at January 1, 2019, as restated                                   | 7,202,841,657             | 23,553,025,157             | 117,784,329,399                | 117,784,329,399              | 29,573,169,046   | (538,392,593)   | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Total comprehensive income  | —                         | —                          | 31,285,246,332                 | —                            | 31,285,246,332   | 673,475,522     | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Reversal of appropriation of retained interest                            | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Appropriation of retained earnings  | —                         | —                          | 24,500,000,000                 | (24,500,000,000)             | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Cash dividends  | —                         | —                          | (25,000,000,000)               | 25,000,000,000               | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Cash dividends paid to non-controlling interest                           | —                         | —                          | (2,665,051,413)                | —                            | (2,665,051,413)  | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Property dividends (subsidiary)   | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Increase in subsidiary's treasury shares                                  | —                         | —                          | —                              | —                            | (18,560,801)     | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Incorporation of a subsidiary (by a subsidiary)                           | —                         | —                          | —                              | —                            | (16,132,408)     | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Sale of company interest in a subsidiary (Note 44)                        | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Issuance of shares by a subsidiary  | —                         | —                          | —                              | —                            | 1,331,373,022    | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Balance at December 31, 2018  | \$7,202,841,657           | \$23,553,025,157           | \$119,688,466,157              | \$118,284,329,399            | \$30,870,148,859 | \$135,082,929   | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Balance at January 1, 2018  | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Effect of adoption of new accounting standard and interpretation          | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Balance at January 1, 2018, as restated                                   | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Total comprehensive income  | —                         | —                          | 14,354,344,677                 | —                            | 14,354,344,677   | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Cash dividends (Note 25)  | —                         | —                          | (19,186,040,273)               | —                            | (19,186,040,273) | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Acquisition of non-controlling interest by a subsidiary                   | —                         | —                          | (2,160,852,497)                | —                            | (2,160,852,497)  | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Increase in subsidiary's treasury shares                                  | —                         | —                          | —                              | —                            | (24,295,485)     | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Sale of investment by a subsidiary  | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Balance at December 31, 2018  | \$7,202,841,657           | \$23,553,025,157           | \$121,317,360,041              | \$117,784,329,399            | \$29,573,169,046 | (\$538,392,593) | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Balance at January 1, 2017  | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Total comprehensive income  | —                         | —                          | 3,700,000,000                  | —                            | 3,700,000,000    | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Appropriation of retained earnings  | —                         | —                          | (3,700,000,000)                | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Cash dividends (Note 25)  | —                         | —                          | —                              | —                            | —                | —               | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |
| Balance at December 31, 2017  | \$7,202,841,657           | \$23,553,025,157           | \$117,784,329,399              | \$117,784,329,399            | \$29,573,169,046 | (\$538,392,593) | —                              | —     | —                                  | —                             | —  | —                             | —   | —                             | —                                    | —                             | —                                       | —                             | —                             | —                             | —                             | —                             | —                             | —                             | —                             |

See accompanying Notes to Consolidated Financial Statements.

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | Years Ended December 31 |                  |                  |
|---|-------------------------|------------------|------------------|
|   | 2019                    | 2018             | 2017             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                         |                  |                  |
| Income before income tax  | ₱48,037,826,359         | ₱33,041,291,149  | ₱45,020,502,999  |
| Adjustments for:  |                         |                  |                  |
| Depreciation and amortization (Notes 15,16, 18 and 46)  | 30,012,996,106          | 20,567,280,014   | 18,936,739,260   |
| Equity in net earnings of associates and joint ventures (Note 14)                                     | (13,357,511,170)        | (10,181,841,883) | (9,908,717,906)  |
| Interest expense (Note 35)  | 10,735,461,364          | 9,377,151,320    | 7,635,388,645    |
| Provision for (recovery from) impairment losses (Note 34)   | (2,144,971,130)         | 137,853,532      | 245,210,325      |
| Interest income (Note 27)   | (2,096,212,143)         | (1,745,547,717)  | (1,243,424,967)  |
| Dividend income (Note 28)   | (1,348,711,916)         | (1,227,572,942)  | (1,451,837,755)  |
| Unrealized foreign exchange (gains) losses  | (828,657,682)           | 2,854,338,888    | 902,717,961      |
| Market valuation losses (gains) on financial assets at fair value through profit or loss (Note 9)     | (703,885,932)           | 683,102,223      | (696,406,991)    |
| Gain on sale of financial assets at fair value through OCI  | (277,810,114)           | (34,208,528)     | -                |
| Loss (gain) on sale and retirement of property, plant and equipment (Note 16)                         | 223,819,896             | (37,107,773)     | (357,609,567)    |
| Loss (gain) arising from changes in fair value less estimated costs to sell of swine stocks (Note 17) | 70,184,825              | 467,471,975      | (118,841,072)    |
| Market valuation losses on derivative financial instruments - net (Note 8)                            | 63,352,472              | 336,784,218      | 155,230,460      |
| Gain on sale of investment securities at amortized cost   | (62,879,198)            | -                | (14,747,467)     |
| Gain on retirement and disposal of investment properties (Note 15)                                    | (17,356,519)            | -                | (5,323,947)      |
| Inventory obsolescence and market decline (Note 34)   | 2,678                   | 7,948,049        | 2,870,047        |
| Gain on sale of investments in associates and joint ventures (Note 14)                                | -                       | (297,544,736)    | -                |
| Operating income before changes in working capital accounts   | 68,305,647,896          | 53,949,397,789   | 59,101,750,025   |
| Changes in operating assets and liabilities:  |                         |                  |                  |
| Decrease (increase) in  |                         |                  |                  |
| Financial assets at fair value through profit or loss   | (231,289,647)           | 10,357,763,247   | 1,083,366,574    |
| Derivative assets   | (49,787,891)            | 712,613,827      | (139,646,082)    |
| Receivables   | (14,128,506,697)        | (2,659,365,975)  | (20,539,411,718) |
| Inventories   | (4,573,432,766)         | (6,160,883,910)  | (4,420,618,310)  |
| Biological assets   | (27,562,723)            | (272,030)        | (262,992,645)    |
| Other current assets  | 3,004,665,848           | (15,845,215,858) | (2,917,451,126)  |
| Increase (decrease) in  |                         |                  |                  |
| Accounts payable and accrued expenses   | 12,832,086,217          | 14,830,290,358   | 18,070,891,006   |
| Unearned revenue  | 771,081,559             | 2,060,166,577    | 908,598,728      |
| Other current liabilities   | 909,221,590             | 12,235,065,367   | (123,854,705)    |
| Net cash generated from operations  | 66,812,123,386          | 69,479,559,392   | 50,760,631,747   |
| Interest paid   | (10,981,560,781)        | (9,179,922,623)  | (7,484,610,422)  |
| Income taxes paid   | (5,346,484,101)         | (5,282,816,210)  | (6,091,437,965)  |
| Interest received   | 1,921,379,426           | 1,622,433,282    | 1,118,435,799    |
| Net cash provided by operating activities   | 52,405,457,930          | 56,639,253,841   | 38,303,019,159   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                         |                  |                  |
| Acquisitions of:  |                         |                  |                  |
| Property, plant and equipment (Notes 16 and 46)   | (62,087,888,513)        | (56,823,519,232) | (28,120,671,763) |
| Investment properties (Notes 15 and 46)   | (10,060,530,771)        | (11,500,194,701) | (15,399,228,857) |
| Investment securities at amortized cost   | (196,260,131)           | (796,741,357)    | -                |
| Investments in associates and joint ventures (Note 14)  | (1,544,789,775)         | (3,273,567,354)  | (7,402,986,821)  |
| Financial assets at fair value through other comprehensive income (Note 10)                           | (28,047,982,472)        | (17,076,977,295) | -                |
| Intangible assets (Note 18)   | (137,886,422)           | (197,000,528)    | (282,472,977)    |
| Subsidiaries, net of cash acquired (Notes 14 and 44)  | -                       | (173,995,570)    | -                |

(Forward)

|  | <b>Years Ended December 31</b> |                         |                         |
|--|--------------------------------|-------------------------|-------------------------|
|  | <b>2019</b>                    | <b>2018</b>             | <b>2017</b>             |
| Available-for-sale investments (Note 10)   | ₱—                             | ₱—                      | (₱15,996,196,225)       |
| Held-to-maturity investments (Note 10)   | —                              | —                       | (14,828,885)            |
| Proceeds from sale of business without loss control (Note 44)                      | <b>7,204,512,000</b>           | —                       | —                       |
| Dividends received on investments in associates and joint ventures (Note 14)       | <b>6,866,259,987</b>           | 5,914,109,460           | 6,604,286,345           |
| Dividends received (Note 28)   | <b>1,348,711,916</b>           | 1,227,572,942           | 1,451,837,755           |
| Decrease in the amounts of other noncurrent assets (Note 20)                       | <b>(1,810,085,103)</b>         | (11,147,232,124)        | (2,011,128,916)         |
| Proceeds from sale/maturity of:  |                                |                         |                         |
| Financial assets at fair value through other comprehensive income                  | <b>24,243,072,327</b>          | 2,808,442,571           | —                       |
| Property, plant and equipment (Note 16)  | <b>4,453,351,444</b>           | 4,783,915,239           | 8,948,396,503           |
| Investment property  | <b>50,004,269</b>              | —                       | 22,529,110              |
| Investment securities  | <b>1,498,635,579</b>           | 171,000,000             | —                       |
| Investment in subsidiary   | —                              | 56,079,593              | —                       |
| Available-for-sale investments   | —                              | —                       | 13,145,035,547          |
| Held-to-maturity investments (Note 10)   | —                              | —                       | 308,928,275             |
| <b>Net cash used in investing activities</b>                                       | <b>(58,220,875,665)</b>        | <b>(86,028,108,356)</b> | <b>(38,746,500,909)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                |                         |                         |
| Net availments (payments) of:  |                                |                         |                         |
| Short-term debts   | <b>85,967,968,788</b>          | 127,722,440,023         | 91,848,238,085          |
| Long-term debts  | <b>47,449,632,216</b>          | 62,986,402,288          | 31,243,531,210          |
| Dividends paid to non-controlling interests (Note 25)                              | <b>(5,768,961,389)</b>         | (5,068,481,993)         | (4,245,057,809)         |
| Increase in other noncurrent liabilities (Note 24)                                 | <b>5,114,680,765</b>           | 7,405,661,745           | 10,326,258,863          |
| Settlements of:  |                                |                         |                         |
| Short-term debts   | <b>(67,145,701,321)</b>        | (138,428,074,125)       | (108,257,955,312)       |
| Long-term debts (Note 23)  | <b>(35,529,183,139)</b>        | (37,019,495,036)        | (11,710,904,401)        |
| Principal portion of lease liabilities   | <b>(6,738,059,926)</b>         | —                       | —                       |
| Dividends paid on:   |                                |                         |                         |
| Common shares (Note 25)  | <b>(2,650,251,413)</b>         | (2,148,852,497)         | (2,005,595,664)         |
| Preferred shares (Note 25)   | <b>(14,800,000)</b>            | (12,000,000)            | (11,200,000)            |
| Cash received from non-controlling interest for newly incorporated subsidiary      | <b>399,250,000</b>             | 120,000,000             | —                       |
| Subsidiary's purchase of treasury shares   | <b>(120,584,125)</b>           | (256,217,393)           | —                       |
| Issuance of long-term negotiable certificate of deposit                            | —                              | —                       | 4,182,320,000           |
| Net proceeds from stock rights offering of a subsidiary                            | —                              | 7,745,852,755           | —                       |
| Cash received from non-controlling interest for issuance of shares by a subsidiary | —                              | 1,200,000,000           | —                       |
| <b>Net cash provided by financing activities</b>                                   | <b>20,963,990,456</b>          | <b>24,247,235,767</b>   | <b>11,369,634,972</b>   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                        | <b>15,148,572,721</b>          | <b>(5,141,618,748)</b>  | <b>10,926,153,222</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                              | <b>49,194,676,441</b>          | <b>54,336,295,189</b>   | <b>43,410,141,967</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>                           | <b>₱64,343,249,162</b>         | <b>₱49,194,676,441</b>  | <b>₱54,336,295,189</b>  |

See accompanying Notes to Consolidated Financial Statements.

# JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Corporate Information

JG Summit Holdings, Inc. (the Parent Company) was incorporated in the Philippines on November 23, 1990 with a corporate term of 50 years from the date of incorporation. On May 8, 2014, the Board of Directors (BOD) of the Parent Company approved its amendment to Article Three of the Amended Articles of Incorporation to change the principal office address of the Parent Company from “Metro Manila, Philippines” to “43rd Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Pasig City” in accordance with Securities and Exchange Commission (SEC) Memorandum Circular No. 6, Series of 2014.

The Parent Company, a holding company, is the ultimate parent of the JG Summit Group (the Group). The Group has business interests in branded consumer foods, agro-industrial and commodity food products, real property development, hotels, banking and financial services, telecommunications, petrochemicals, air transportation and power distribution.

The Group conducts business throughout the Philippines, but primarily in and around Metro Manila where it is based. The Group also has branded food businesses in the People’s Republic of China, in the Association of Southeast Asian Nations region, New Zealand and Australia and an interest in a property development business in Singapore and People’s Republic of China.

The principal activities of the Group are further described in Note 6, *Segment Information*, to the consolidated financial statements.

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### 2. Summary of Significant Accounting Policies

#### Basis of Preparation

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), financial assets at fair value through other comprehensive income (FVOCI), and derivative financial instruments that are measured at fair value, and certain biological assets and agricultural produce that are measured at fair value less estimated costs to sell.

The consolidated financial statements of the Group are presented in Philippine peso (₱), the functional currency of the Parent Company. All values are rounded to the nearest peso except when otherwise stated.

A summary of the functional currencies of certain foreign subsidiaries within the Group follows:

| Subsidiaries                                 | Country of Incorporation | Functional Currency |
|--|--------------------------|---------------------|
| <b>Parent Company</b>                        |                          |                     |
| JG Summit Cayman Limited                     | Cayman Islands           | US Dollar           |
| JG Summit Philippines, Ltd. and Subsidiaries |                          |                     |
| JG Summit Philippines, Ltd.                  | -do-                     | -do-                |
| JGSH Philippines, Limited                    | British Virgin Islands   | -do-                |
| Telegraph Development, Ltd.                  | -do-                     | -do-                |
| Summit Top Investment, Ltd.                  | -do-                     | -do-                |
| JG Digital Equity Ventures and subsidiary    |                          |                     |
| JG Digital Capital Pte. Ltd.                 | Singapore                | Singapore Dollar    |

(Forward)

| Subsidiaries                                     | Country of Incorporation | Functional Currency |
|--|--------------------------|---------------------|
| <b>URC Group</b>                                 |                          |                     |
| Universal Robina (Cayman), Limited               | Cayman Islands           | US Dollar           |
| URC Philippines, Limited                         | British Virgin Islands   | -do-                |
| URC Asean Brands Co. Ltd.                        | -do-                     | -do-                |
| Hong Kong China Foods Co. Ltd.                   | -do-                     | -do-                |
| URC International Co., Ltd.                      | -do-                     | -do-                |
| URC China Commercial Co. Ltd.                    | China                    | Chinese Renminbi    |
| Xiamen Tongan Pacific Food Co., Ltd.             | -do-                     | -do-                |
| Shanghai Peggy Foods Co., Ltd.                   | -do-                     | -do-                |
| Guangzhou Peggy Foods Co., Ltd.                  | -do-                     | -do-                |
| Jiangsu Acesfood Industrial Co.                  | -do-                     | -do-                |
| Shantou SEZ Shanfu Foods Co., Ltd.               | -do-                     | -do-                |
| Shantou Peggy Co., Ltd.                          | -do-                     | -do-                |
| URC (Thailand) Co., Ltd.                         | Thailand                 | Thai Baht           |
| Siam Pattanasin Co., Ltd.                        | -do-                     | -do-                |
| URC Foods (Singapore) Pte. Ltd.                  | Singapore                | Singapore Dollar    |
| Advanson International Pte. Ltd.                 | -do-                     | -do-                |
| Acesfood Network Pte. Ltd.                       | -do-                     | -do-                |
| Acesfood Holdings Pte. Ltd.                      | -do-                     | -do-                |
| Acesfood Distributors Pte. Ltd.                  | -do-                     | -do-                |
| PT URC Indonesia                                 | Indonesia                | Indonesian Rupiah   |
| URC (Myanmar) Co. Ltd.                           | Myanmar                  | Myanmar Kyats       |
| URC Hong Kong Company Limited                    | China                    | Hong Kong Dollar    |
| URC Vietnam Co., Ltd.                            | Vietnam                  | Vietnam Dong        |
| URC Hanoi Company Limited                        | -do-                     | -do-                |
| URC Central Co. Ltd.                             | -do-                     | -do-                |
| Ricellent Sdn. Bhd.                              | Malaysia                 | Malaysian Ringgit   |
| URC Snack Foods (Malaysia) Sdn. Bhd.             | -do-                     | -do-                |
| URC Oceania Company Ltd.                         | British Virgin Islands   | US Dollar           |
| Uni Snack Holding Company Ltd                    | Australia                | Australian Dollar   |
| Uni Snack Mid Company Ltd                        | -do-                     | -do-                |
| URC New Zealand Holding Company Ltd.             | New Zealand              | New Zealand Dollar  |
| URC New Zealand Finance Company Ltd.             | -do-                     | -do-                |
| Griffin's Foods Limited                          | -do-                     | -do-                |
| Nice & Natural Limited                           | -do-                     | -do-                |
| URC Australia Holding Company Ltd.               | Australia                | Australian Dollar   |
| URC Australia Finance Company Ltd.               | -do-                     | -do-                |
| Consolidated Snacks Pty Ltd                      | -do-                     | -do-                |
| Yarra Valley Group Holding Pty Ltd.              | -do-                     | -do-                |
| Snack Brands Australia Partnership               | -do-                     | -do-                |
| <b>RLC Group</b>                                 |                          |                     |
| Robinsons (Cayman) Limited                       | Cayman Islands           | US Dollar           |
| RLC Resources Ltd                                | British Virgin Islands   | -do-                |
| Land Century Holdings, Ltd.                      | China                    | Hong Kong Dollar    |
| World Century Enterprise Ltd.                    | -do-                     | -do-                |
| First Capital Development, Ltd                   | -do-                     | -do-                |
| Chengdu Xin Yao Real Estate Development, Co. Ltd | -do-                     | Chinese Renminbi    |

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and the following wholly and majority owned subsidiaries:

| Subsidiaries  | Country of Incorporation | Principal Place of Business  | Effective Percentage of Ownership |
|---|--------------------------|--|-----------------------------------|
|   |                          |  | 2019                              |
|   |                          |  | 2018                              |
| <b>Food</b>   |                          |  |                                   |
| Universal Robina Corporation (URC) and Subsidiaries                           | Philippines*             | 8 <sup>th</sup> floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City                    | 55.25                             |
| CFC Corporation   | -do-                     | -do-   | 55.25                             |
| Bio-Resource Power Generation Corporation                                     | -do-                     | Manjuyod, Negros Oriental  | 55.25                             |
| Nissin-URC  | -do-                     | CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City  | 28.17**                           |
| URC Snack Ventures Inc. (formerly, Calbee-URC, Inc. (CURCI))                  | -do-                     | 8th floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City                                | 55.25                             |
| URC Beverage Ventures Inc. (formerly, Hunt-URC (HURC))                        | -do-                     | 8th floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City                                | 55.25                             |
| URC Philippines, Limited (URCPPL)   | British Virgin Islands   | Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands | 55.25                             |
| URC International Co. Ltd. (URCICL) and Subsidiaries                          | -do-                     | -do-   | 55.25                             |
| Universal Robina (Cayman), Ltd. (URCL)  | Cayman Islands           | Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands, British West Indies    | 55.25                             |
| URC China Commercial Co., Ltd.  | China                    | 318 Shangcheng Road, Room 1417 Lian You Bldg., Pudong, Shanghai, China   | 55.25                             |
| <b>Air Transportation</b>   |                          |  |                                   |
| CP Air Holdings, Inc. (CPAHI) and Subsidiaries                                | Philippines              | 2nd Floor, Doña Juanita Marquez Lim Building, Osmeña Boulevard, Cebu City  | 100.00                            |
| Cebu Air, Inc. (CAI) and Subsidiaries   | -do-                     | -do-   | 67.64                             |
| CEBGO, Inc. (CEBGO)   | -do-                     | AO-08-09 Mezzanine Level, Passenger Terminal Building, Clark International Airport, Clark Freeport Zone, Pampanga        | 67.64                             |
| <b>Real Estate and Hotels</b>   |                          |  |                                   |
| Robinsons Land Corporation (RLC) and Subsidiaries                             | Philippines              | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 60.97                             |
| Robinson's Inn, Inc.  | -do-                     | -do-   | 60.97                             |
| Robinsons Realty and Management Corporation                                   | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 60.97                             |
| Robinsons (Cayman) Limited  | Cayman Islands           | Maples and Calder, P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands                         | 60.97                             |
| Robinsons Properties Marketing and Management Corporation                     | Philippines              | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 60.97                             |
| Manhattan Buildings and Management Corp                                       | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 60.97                             |
| Altus Angeles, Inc.   | -do-                     | McArthur Highway, Balisage, Angeles City, Pampanga   | 31.09**                           |
| Altus Property Ventures, Inc. (formerly Altus San Nicolas Corporation) (APVI) | -do-                     | Bogy. 1 San Francisco, San Nicolas, Ilocos Norte   | 60.97                             |
| Go Hotels Davao, Inc.   | -do-                     | Lanang, Davao City   | 31.09**                           |
| RLC Resources Ltd   | British Virgin Islands   | British Virgin Islands   | 60.97                             |

(Forward)

| Subsidiaries  | Country of Incorporation | Principal Place of Business  | Effective Percentage of Ownership |        |
|---|--------------------------|--|-----------------------------------|--------|
|   |                          |  | 2019                              | 2018   |
| Land Century Holdings, Ltd.   | China                    | Hong Kong  | 60.97                             | 60.97  |
| World Century Enterprise Ltd.   | China                    | Hong Kong  | 60.97                             | 60.97  |
| First Capital Development, Ltd  | China                    | Hong Kong  | 60.97                             | 60.97  |
| Chengdu Xin Yao Real Estate Development Co. Ltd.  | China                    | China  | 60.97                             | 60.97  |
| Bacoor R and F Land Corporation (BRFLC)   | Philippines              | Philippines  | 42.68                             | 42.68  |
| Bonifacio Property Ventures, Inc.   | Philippines              | Philippines  | 60.97                             | 60.97  |
| Altus Mail Ventures, Inc.   | Philippines              | Philippines  | 60.97                             | 60.97  |
| RLGB Land Corporation (RLGB)  | Philippines              | Philippines  | 60.97                             | -      |
| <b>Petrochemicals</b>   |                          |  |                                   |        |
| JG Summit Petrochemical Corporation (JGSPC)   | Philippines              | Ground Floor, Cybergate Tower 1, EDSA corner, Pioneer Street, Mandaluyong City   | 100.00                            | 100.00 |
| JG Summit Olefins Corporation (JGSOC)   | -do-                     | 43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 100.00                            | 100.00 |
| <b>Banking</b>  |                          |  |                                   |        |
| Robinsons Bank Corporation (RBC) and a Subsidiary Legazpi Savings Bank, Inc. (LSB)                | -do-                     | 17th floor, Galleria Corporate Center EDSA corner Ortigas Avenue, Quezon City Rizal Street, Barangay Sagpon, Albay, Legazpi City | 60.00                             | 60.00  |
| <b>Supplementary Businesses</b>   |                          |  |                                   |        |
| Altus Property Ventures, Inc. (formerly Altus San Nicolas Corporation) (APVI)                     | -do-                     | Bogy. 1 San Francisco, San Nicolas, I Locos Norte  | 60.97                             | -      |
| Digital Analytics Ventures, Inc. (DAVI)   | -do-                     | 42nd Floor, Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City                                 | 45.17**                           | -      |
| JG Digital Equity Ventures, Inc. (formerly Express Holdings, Inc. or EHI) and Subsidiary (JG DEV) | -do-                     | 29th Floor, Galleria Corporate Center, EDSA, Quezon City   | 100.00                            | 100.00 |
| JG Digital Capital Pte. Ltd (JDCPL)   | Singapore                | 168 Tagore Lane Singapore  | 100.00                            | 100.00 |
| JG Summit Capital Services Corp. (JGSCSC) and Subsidiaries  | Philippines              | 40th Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City                                 | 100.00                            | 100.00 |
| JG Summit Capital Markets Corporation (JGSMMC)  | -do-                     | -do-   | 100.00                            | 100.00 |
| Summit Internet Investments, Inc.   | -do-                     | -do-   | 100.00                            | 100.00 |
| JG Summit Cayman, Ltd (JGSCL)   | Cayman Islands           | Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands                                  | 100.00                            | 100.00 |
| JG Summit Philippines Ltd. (JGSPL) and Subsidiaries   | -do-                     | -do-   | 100.00                            | 100.00 |
| JGSH Philippines, Limited   | British Virgin Islands   | Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands         | 100.00                            | 100.00 |
| Telegraph Developments, Ltd.  | -do-                     | -do-   | 100.00                            | 100.00 |
| Summit Top Investments, Ltd.  | -do-                     | -do-   | 100.00                            | 100.00 |
| Unicon Insurance Brokers Corporation (UIBC)   | Philippines              | 34th Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City  | 100.00                            | 100.00 |
| JG Summit Infrastructure Holdings Corporation   | -do-                     | 43rd Floor Robinsons Equitable Tower, ADB avenue, Corner Poveda Road, Pasig City   | 100.00                            | 100.00 |
| Merbau Corporation  | -do-                     | Ground floor Cybergate Tower 1 Edsa cor Pioneer St. Mandaluyong City   | 100.00                            | 100.00 |

(Forward)

| Subsidiaries   | Country of Incorporation | Principal Place of Business             | Effective Percentage of Ownership |        |
|--|--------------------------|---|-----------------------------------|--------|
|  |                          |   | 2019                              | 2018   |
| Batangas Agro-Industrial Development Corporation (BAID) and Subsidiaries | -do-                     | 5th Floor Citibank Center, Makati       | 100.00                            | 100.00 |
| Fruits of the East, Inc.   | -do-                     | Citibank Center, Paseo de Roxas, Makati | 100.00                            | 100.00 |
| Homotel Integrated Management Corporation                                | -do-                     | -do-                                    | 100.00                            | 100.00 |
| King Leader Philippines, Inc.  | -do-                     | 5th Floor Citibank Center, Makati       | 100.00                            | 100.00 |
| Tropical Aqua Resources  | -do-                     | -do-                                    | 100.00                            | 100.00 |
| United Philippines Oil Trading, Inc.                                     | -do-                     | -do-                                    | 100.00                            | 100.00 |
| Samar Commodities Trading and Industrial Corporation                     | -do-                     | -do-                                    | 100.00                            | 100.00 |

\* Certain subsidiaries are located in other countries, such as China, Malaysia, Singapore, Thailand, Vietnam, etc.

\*\* These are majority-owned subsidiaries of the Parent Company's directly-owned subsidiaries.

*Transfer of direct control over APVI*

On July 31, 2019, RLC declared its 93.89% stake in APVI as property dividends in favor of its registered shareholders. As a result, the Parent Company now has direct control over APVI. However, this has no impact in the consolidated financial statements.

*Incorporation of DAVI*

On December 4, 2018, the Group, through its majority-owned subsidiaries CAI and RLC and wholly-owned subsidiary JG DEV and in partnership with Robinsons Retail Holdings, Inc. (RRHI), launched DAVI, the conglomerate's data services firm.

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; and
- 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 in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

PFRS 10, prescribes guidance on the consolidation of SPE. Under PFRS 10, special purpose entities (SPE) should be consolidated when the substance of the relationship between the company and the SPE indicates that the SPE is controlled by the company. Control over an entity may exist when one entity is exposed, or has the rights to variable returns from its involvement with the SPE and has the ability to affect those returns through its power over the SPE. In accordance with PFRS 10, the Group's consolidated financial statements include the accounts of SPEs namely: Boracay Leasing Limited (BLL), Surigao Leasing Limited (SLL), Panatag One Aircraft Leasing Limited (POALL), Panatag Two Aircraft Leasing Limited (PTALL), Panatag Three Aircraft Leasing Limited (PTHALL), Summit C Aircraft Leasing Limited (SCALL), Tikgi One Aviation Designated Activity Company (TOADAC), Summit D Aircraft Leasing Limited (SDALL) and CAI Limited (CL). BLL, SLL, POALL, PTALL and PTHALL are SPEs in which the Parent Company does not have equity interest. BLL, SLL, POALL, PTALL, PTHALL, SCALL, TOADAC, SDALL and CL acquired the passenger aircraft for lease to CAI under finance lease arrangements and funded the acquisitions through long-term debt. In April 2018, Cebu Aircraft Leasing Limited (CALL) and Sharp Aircraft Leasing Limited (SALL) were dissolved due to the sale of aircraft to third parties.

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

All intragroup transactions, balances, income and expenses are eliminated in the consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Group.

If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to profit or loss or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained; and
- recognizes any surplus or deficit in profit or loss in the consolidated statement of comprehensive income.

#### Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss in the consolidated statement of comprehensive income as incurred.

Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant PFRS. Changes in the fair value of contingent consideration classified as equity are not recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that if known, would have affected the amounts recognized as of that date. The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum period of one year.

If the business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the acquisition date (the date the Group attains control) and the resulting gain or loss, if any, is recognized in profit or loss in the consolidated statement of comprehensive income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss in the consolidated statement of comprehensive income, where such treatment would be appropriate if that interest were disposed of.

#### Goodwill

Goodwill arising on the acquisition of a subsidiary is recognized as an asset at the date the control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held interest, if any, in the entity over the net fair value of the identifiable net assets recognized.

If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest, if any, the excess is recognized immediately in profit or loss in the consolidated statement of comprehensive income as a bargain purchase gain.

Goodwill is not amortized, but is reviewed for impairment at least annually. Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and amendments effective as of January 1, 2019. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

- *PFRS 16, Leases*

In 2019, the Group adopted PFRS 16 which 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 – lease of “low-value” assets and short term leases (i.e., leases with a term of 12 months or less). At the commencement date, a lessee will recognize a liability to make lease payments (i.e., lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., right-of-use or ROU asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the ROU asset. Upon occurrence of certain events (e.g., a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determine those payments), lessees are required to remeasure the lease liability and recognize the remeasurement as an adjustment to the ROU asset. Lessor accounting under PFRS 16 is substantially unchanged in comparison to the accounting under PAS 17 and related interpretations.

In the adoption of PFRS 16, the Group has chosen to apply the modified retrospective approach with the cumulative effect of initially applying the standard recognized at the date of initial application, January 1, 2019. Therefore, the comparative information was not restated and continues to be reported under PAS 17 and related interpretations. In using the modified

retrospective approach, the Group has availed of the following practical expedients provided under the standard:

- PFRS 16 was not applied to leases for which the lease term is within 12 months from the date of initial application;
- The Group has relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Hindsight was used in determining the lease term for those contracts containing options to extend or terminate the lease; and
- A single discount rate was used to a portfolio of leases with reasonably similar characteristics.

The Group has also elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*. The Group therefore did not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17 and IFRIC 4.

As comparative information is not restated, the Group is not required to provide a third statement of financial position at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

The impact on the Group's consolidated statement of financial position as at January 1, 2019 upon the adoption of PFRS 16 are as follows (*in thousands*):

|   | Under previous<br>PFRSs | Adjustments            | Under<br>PFRS 16       |
|---|-------------------------|------------------------|------------------------|
| <b>ASSETS</b>                               |                         |                        |                        |
| Other current assets                        | ₱32,702,784             | (₱32,702,784)          | ₱-                     |
| Investment properties                       | 29,922,064              | (29,922,064)           | -                      |
| Right-of-use assets                         | -                       | 18,599,339,564         | 18,599,339,564         |
| Other noncurrent assets                     | 376,279,927             | (376,279,927)          | -                      |
|   | <b>₱438,904,775</b>     | <b>₱18,160,434,789</b> | <b>₱18,599,339,564</b> |
| <b>LIABILITIES AND EQUITY</b>               |                         |                        |                        |
| Accounts payable and other accrued expenses | ₱1,690,224,055          | (₱1,690,224,055)       | ₱-                     |
| Lease liabilities*                          | -                       | 19,279,144,855         | 19,279,144,855         |
| Deferred tax liabilities - net              | -                       | 183,525,290            | 183,525,290            |
| Retained earnings                           | -                       | 236,556,710            | 236,556,710            |
| Non-controlling interest                    | -                       | 151,431,989            | 151,431,989            |
|   | <b>₱1,690,224,055</b>   | <b>₱18,160,434,789</b> | <b>₱19,850,658,844</b> |

\*Presented within "Other noncurrent liabilities" account in the consolidated statement of financial position

The Group has leases for various items such as land, office spaces, commercial and residential properties, passenger aircraft and flight equipment, vehicles and other equipment. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement date at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (i.e., recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased asset was not capitalized and the leased payments were recognized as rent expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under "Other current assets" and "Accounts payable and accrued expenses" accounts in the consolidated statement of financial position.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases (as lessee), except for short-term leases and leases of low-valued assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

*Leases previously classified as finance leases*

At the date of initial application, the Group did not change the carrying amounts of recognized assets and liabilities for leases previously classified as finance leases under PAS 17 because they equal the amount of ROU assets and lease liabilities to be recognized under PFRS 16. Subsequent to January 1, 2019, the requirements of PFRS 16 have been applied to these leases.

*Leases previously classified as operating leases*

The Group recognized ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The ROU assets for most leases were recognized based on the amount equal to the lease liabilities adjusted for any previously recognized prepaid rent or accrued rent. In some leases, ROU assets were recognized based on the carrying amount as if the standard has always been applied since the commencement date but discounted using the incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application.

Based on the foregoing, the Group recognized ROU assets of ₱18.6 billion and lease liabilities of ₱19.3 billion as at January 1, 2019, and ROU assets of ₱20.5 billion and lease liabilities of ₱21.1 billion, comprised of noncurrent portion of ₱15.3 billion and current portion of ₱5.8 billion, as at December 31, 2019.

The lease liabilities as at January 1, 2019 as can be reconciled to the opening lease commitments as at December 31, 2018 follows:

|  |                 |
|--|-----------------|
| Operating lease commitments as at December 31, 2018                                | ₱51,541,861,700 |
| Weighted average incremental borrowing rate at January 1, 2019                     | 2.12%-7.99%     |
| Discounted operating lease commitments at January 1, 2019                          | 33,138,324,414  |
| Less: Commitments relating to short term leases                                    | 14,068,542,596  |
| Add: Payments in optional extension periods not recognized at<br>December 31, 2018 | 209,363,037     |
| Lease liabilities as at January 1, 2019  | ₱19,279,144,855 |

- Philippine Interpretations Committee issued PIC Q&A 2019-3, *Revenue Recognition Guidance for Sugar Millers*

With the effectivity of PFRS 15 on January 1, 2018, the Financial Reporting Standards Council (FRSC), Philippine Interpretations Committee (PIC) issued PIC Q&A 2019-3, Revenue Recognition Guidance for Sugar Millers, to assist the companies operating in the sugar industry in the adoption of PFRS 15. The interpretation states that a miller recognize revenue arising from its sugar milling operation under either output sharing agreement (OSA) or cane purchase agreement (CPA), and that providing free-period storage constitutes a separate performance obligation in the case of OSA.

In response to concerns raised by the sugar industry on the implementation and adoption of the PIC Q&A, the SEC issued MC No. 6 on April 4, 2019, deferring the application of the following provisions of the above-mentioned PIC Q&As for a period of one (1) year.

The Group availed of the deferral of adoption of the above specific provisions. Effective January 1, 2019, the Group adopted PIC Q&A No. 2019-3 using modified retrospective approach. Under this approach, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed as of this date. The Group elected to apply the standard to all contracts that are not completed as at December 31, 2018. The Group had assessed that the impact of the adoption on the January 1, 2018 financial statements is not significant to the consolidated financial statements taken as a whole. Accordingly, no adjustments were made in the January 1, 2018 opening balance. As of December 31, 2019, the Group now is in full compliance with PFRS 15 with its sugar business adopting the said standard, both under OSA and CPA.

Set out below are the amounts by which each financial statement line item is affected as at January 1, 2019. The adoption of PFRS 15 did not have an impact on the Group's other comprehensive income nor on its operating, investing and financing cash flows at January 1, 2019. Impact in beginning balance of retained earnings and non-controlling interests amounted to ₱14.3 million and ₱11.6 million, respectively.

*Group's statement of comprehensive income for the year ended December 31, 2019*

|                                    | <b>Before Adoption</b> | <b>Adjustment</b> | <b>After Adoption</b> |
|------------------------------------|------------------------|-------------------|-----------------------|
| Sale of goods and services - Foods | ₱133,245,422,149       | ₱929,105,430      | ₱134,174,527,579      |
| Cost of sales                      | 122,074,707,670        | 902,585,817       | 122,977,293,487       |

*Group's statement of financial position as of December 31, 2019*

|                     | <b>Before Adoption</b> | <b>Adjustment</b> | <b>After Adoption</b> |
|---------------------|------------------------|-------------------|-----------------------|
| Inventories         | ₱68,487,356,895        | ₱26,519,614       | ₱ 68,513,876,509      |
| Deferred tax asset* | 2,470,481,730          | (7,955,884)       | 2,462,525,846         |

\*Presented within "Other noncurrent assets" account in the consolidated statement of financial position

The nature of the adjustment as at January 1, 2019 and the reasons for the significant changes in the consolidated statement of income for the year ended December 31, 2019 as presented in the above table are described below:

- a) The Group has determined that all contracts under PAS 18 qualify as contracts under PFRS 15. Under PAS 18, milling contracts entered into by the Group with the planters for the conversion of the planters' sugar cane into raw sugar through OSA is not considered as a revenue contract, but is now within the scope of PFRS 15. Planters are considered customers under this arrangement and the Group provides services to the planters in the form of conversion processes of sugar cane to raw sugar.

Other than the sale of goods and services, providing free-period storage is identified as a separate performance obligation for the planters' share under OSA, stored at the Group's warehouse.

The adoption of the following pronouncements did not have any significant impact on the Group's financial position or performance:

- 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.

- Amendments to PAS 19, *Plant Amendment, Curtailment or Settlement*

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

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

The amendments to PAS 28 clarify that entities should apply PFRS 9, *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method 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, recognised as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28.

- 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 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts

the resolution of the uncertainty. The Group shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

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

- *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.

- *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 the consolidated statement of comprehensive income or equity according to where the entity originally recognized those past transactions or events.

- *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.

## **Significant Accounting Policies**

### Fair Value Measurement

For measurement and disclosure purposes, the Group determines the fair value of an asset or liability at initial measurement or at each statement of financial position date. 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 by 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 participant's 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.

#### Foreign Currency Translation

The Group's consolidated financial statements are presented in Philippine peso, which is also the Parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

#### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities in their respective functional currencies at the foreign exchange rates prevailing at the dates of the transactions.

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 comprehensive income. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in 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.

#### *Group companies*

As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Parent Company, 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 profit or loss.

### Cash and Cash Equivalents

Cash represents 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 the dates of placement, and that are subject to an insignificant risk of changes in value.

### Financial Instruments – Classification and Measurement

#### *Initial recognition and measurement of financial assets*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or computed based on valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which are not observable from the market, the difference between the transaction price and the model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the amount of 'Day 1' difference.

#### *Contractual cash flows characteristics*

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments that do not pass this test are automatically classified at fair value through profit or loss. In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

#### *Business model*

The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the portfolio and the financial assets held within that portfolio are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the portfolio (and the financial assets held within that portfolio) and how these risks are managed and how managers of the business are compensated.

*Subsequent measurement of financial assets*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

*Investment securities at amortized cost*

A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Impairment losses' in the consolidated statement of comprehensive income.

*Financial assets at fair value through other comprehensive income (FVOCI)*

Financial assets at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statements of comprehensive income as 'Fair value reserves on financial assets at FVOCI.'

Debt securities at FVOCI 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 FVOCI, as well as the impact of restatements on foreign currency-denominated debt securities at FVOCI, is reported in the consolidated statements of comprehensive income. Interest earned on holding debt securities at debt securities at FVOCI are reported as interest income using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the consolidated statements of comprehensive income is recognized in profit or loss. The expected credit losses (ECL) arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Impairment losses and others' in the consolidated statements of comprehensive income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the consolidated statements of comprehensive income as 'Dividend income' 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 statements of comprehensive income is reclassified to 'Retained earnings' or any other appropriate equity account upon disposal. Equity securities at FVOCI

are not subject to impairment assessment.

*Financial assets at fair value through profit or loss (FVTPL)*

Financial assets are measured at FVTPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity and debt investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of comprehensive income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of debt instruments classified as FVOCI and investments securities at amortized cost.

*Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Initial recognition and measurement of financial liabilities*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, derivatives designated as hedging instruments in an effective hedge, or other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

#### *Subsequent measurement of financial liabilities*

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of comprehensive income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. The Group has not designated any financial liability as at fair value through profit or loss.

#### *Other financial liabilities*

This category pertains to the Group's interest-bearing loans and borrowing and payables. After initial recognition, these other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the consolidated statement of comprehensive income.

#### *Derecognition of financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

#### *Reclassifications of financial instruments*

The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

#### Impairment of Financial Assets

##### *Policies applicable beginning January 1, 2018*

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not classified as FVTPL. ECLs 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. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

#### *Incurred loss versus expected credit loss methodology*

The impairment requirements under PAS 39 (incurred loss model) are significantly different from those under PFRS 9 (expected loss model). Under the incurred loss model, loan and investment assets are regarded as impaired if there is no longer reasonable assurance that the future cash flows related to them will be either collected in their entirety or when due. Under the expected loss methodology, impairment is more forward-looking, in that a credit event (or impairment ‘trigger’) no longer has to occur before credit losses are recognized. ECL represents 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 will be 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 (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

#### *Staging assessment*

PFRS 9 establishes a three-stage approach for impairment of financial assets, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognized.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a significant increase in credit risk (SICR) since initial recognition or is considered of low credit risk as of the reporting date. The Group recognizes a 12-month ECL for Stage 1 financial instruments. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial instruments. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Group recognizes a lifetime ECL for Stage 3 financial instruments.

#### *Definition of “default” and “restored”*

The Group eventually classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days. As part of a qualitative assessment of whether a customer is in default, the Group considers a variety of instances that may indicate unlikelihood to pay. In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted.

An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

#### *Credit risk at initial recognition*

The Group uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

#### *Significant increase in credit risk*

The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. The SICR criteria vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

#### *ECL parameters and methodologies*

ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. EAD is 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, and expected drawdowns on committed facilities.

#### *Forward-looking information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, exchange rate, interest rate, inflation rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Group applied the general approach for customer receivables from its Banking Segment. For the trade receivables and contract assets of other segments, 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 of these receivables, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. For the Real estate and hotels segment's installment contract and contract assets, the vintage analysis approach is used. This method accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period. 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.

For cash and cash equivalents, short-term investments and debt securities, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

#### *Debt instruments measured at fair value through OCI*

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statements of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets are measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

#### *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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost (i.e., receivables or HTM investments) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account. The loss is recognized in the consolidated statement of comprehensive income as 'Impairment losses and others'. The asset, together with the associated allowance account, is written-off when there is no realistic prospect of future recovery.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtor's 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 of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

The Group performs a regular review of the age and status of these accounts, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment loss.

The review is accomplished using a combination of specific and collective assessment approaches, with the impairment loss being determined for each risk grouping identified by the Group.

#### *AFS investments*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as AFS investments, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Group treats 'significant' generally as 20% and 'prolonged' as greater than 12 months for quoted equity securities. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit and loss, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss in the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized as part of other comprehensive income.

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. 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 the impairment loss. Such accrual is recorded as part of 'Interest income' in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

#### Write-off of Financial Assets

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows (e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the Group has effectively exhausted all collection efforts).

#### Offsetting Financial Instruments

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

default, and event of solvency or bankruptcy of the Group and all of the counterparties.

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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.

#### Inventories

Inventories, including work-in-process, are valued at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for materials, spare parts and other supplies represents the related replacement costs. In determining the NRV, the Group deducts from cost 100.0% of the carrying value of slow-moving items and nonmoving items for more than one year.

When inventories are sold, the carrying amounts of those inventories are recognized under 'Cost of sales and services' in profit or loss in the period when the related revenue is recognized.

Some inventories may be allocated to other asset accounts, for example, inventory used as a component of a self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

#### *Finished goods, work-in-process, raw materials and packaging materials*

##### *a. Petrochemicals*

Cost is determined using the moving average costing method. Cost of finished goods and work-in-process includes direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced.

##### *b. Branded consumer foods, agro-industrial and commodity food products*

Cost is determined using the weighted average method. Under the weighted average costing method, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. Cost of finished goods and work-in-process include direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced, but excluding borrowing costs.

#### *Subdivision land and condominium and residential units for sale*

Subdivision land, condominium and residential units for sale in the ordinary course of business are carried at the lower of cost and NRV. Cost includes land costs, costs incurred for development and

improvement of the properties and borrowing costs on loans directly attributable to the projects which were capitalized during construction.

NRV is the estimated selling price in the ordinary course of business less cost of completion and estimated costs necessary to make the sale.

The cost of inventory recognized in the consolidated statement of comprehensive income is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

#### *Factory supplies and spare parts*

Cost is determined using the weighted average method.

#### Investments in Associates and Joint Ventures

Associates pertain to all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting.

The Group also has interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

The Group's investments in its associates and joint ventures are accounted for using the equity method of accounting. Under the equity method, the investments in associates and joint ventures are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the associates and joint ventures. The consolidated statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. Where there has been a change recognized in the investees' other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income. Profits and losses arising from transactions between the Group and the associate are eliminated to the extent of the interest in the associates and joint ventures.

The Group's investments in certain associates and joint ventures include goodwill on acquisition, less any impairment in value. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortized.

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

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### Investment Properties

Investment properties consist of properties that are held to earn rentals or for capital appreciation or both, and those which are not occupied by entities in the Group. Investment properties, except for land, are carried at cost less accumulated depreciation and impairment loss, if any. Land is carried at cost less impairment loss, if any. Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset

cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. 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 dation in payment (dacion en pago).

The Group's investment properties are depreciated using the straight-line method over their estimated useful lives (EUL) as follows:

|                            |                |
|----------------------------|----------------|
| Land improvements          | 5 to 10 years  |
| Buildings and improvements | 10 to 30 years |

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation 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.

Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement or disclosure purposes. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under 'Property, plant and equipment' up to the date of change in use.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of investment properties are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

#### Property, Plant and Equipment

Property, plant and equipment, except land which is stated at cost less any impairment in value, are carried at cost less accumulated depreciation, amortization and impairment loss, if any.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation (ARO) relating to property, plant and equipment installed/constructed on leased properties or leased aircraft.

Subsequent replacement costs of parts of property, plant and equipment are capitalized when the recognition criteria are met. Significant refurbishments and improvements are capitalized when it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits

expected to be obtained from the use of an item of property, plant and equipment beyond the originally assessed standard of performance. Costs of repairs and maintenance are charged as expense when incurred.

Foreign exchange differentials arising from the acquisition of property, plant and equipment are charged against profit or loss in the consolidated statement of comprehensive income and are no longer capitalized.

Depreciation and amortization of property, plant and equipment commences once the property, plant and equipment are available for use, and are computed using the straight-line method over the EUL of the assets, regardless of utilization.

The EUL of property, plant and equipment of the Group follow:

|  | EUL            |
|--|----------------|
| Land and improvements                          | 10 to 40 years |
| Buildings and improvements                     | 10 to 30 years |
| Machinery and equipment                        | 4 to 50 years  |
| Leasehold improvements                         | 15 years       |
| Passenger aircraft                             | 15 years       |
| Other flight equipment                         | 3 to 5 years   |
| Transportation, furnishing and other equipment | 3 to 5 years   |

Leasehold improvements are amortized over the shorter of their EULs or the corresponding lease terms.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Any change in the expected residual values, useful lives and methods of depreciation are adjusted prospectively from the time the change was determined necessary.

Construction in-progress is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use. Assets under construction are reclassified to a specific category of property, plant and equipment when the construction and other related activities necessary to prepare the properties for their intended use are completed and the properties are available for use.

Major spare parts and stand-by equipment items that the Group expects to use over more than one period and can be used only in connection with an item of property, plant and equipment are accounted for as property, plant and equipment. Depreciation and amortization on these major spare parts and stand-by equipment commence once these have become 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 the Group).

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the consolidated statement of comprehensive income, in the year the item is derecognized.

### ARO

The Group is contractually required under various lease contracts to either restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. The event that gives rise to the obligation is the actual flying hours, flying cycles or calendar months of the asset as used, as the usage determines the timing and nature of the overhaul and restoration work required or the amount to be contributed at the end of the lease term. For certain lease agreements, the Group provides for these costs over the terms of the leases through contribution to a maintenance reserve fund (MRF) which is recorded as outright expense. If the estimated cost of restoration is expected to exceed the cumulative MRF, an additional obligation is accounted on an accrual basis. Regular aircraft maintenance is accounted for as expense when incurred.

If there is a commitment related to maintenance of aircraft held under operating lease arrangements, a provision is made during the lease term for the lease return obligations specified within those lease agreements. The provision is made based on historical experience, manufacturers' advice and if relevant, contractual obligations, to determine the present value of the estimated future major airframe inspections cost and engine overhauls.

Advance payment for materials for the restoration of the aircraft is initially recorded under 'Advances to supplier' account in the consolidated statement of financial position. This is recouped when the expenses for restoration of aircraft have been incurred.

The Group regularly assesses the provision for ARO and adjusts the related liability.

### Borrowing Costs

Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress, and expenditures and borrowing costs are being incurred. The capitalization of these borrowing costs ceases when substantially all the activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Capitalized borrowing cost is based on the applicable weighted average borrowing rate for general borrowings. For specific borrowings, all borrowing costs are eligible for capitalization.

Borrowing costs which do not qualify for capitalization are expensed as incurred.

Interest expense on loans is recognized using the effective interest method over the term of the loans.

### Biological Assets

The biological assets of the Group are divided into two major categories with sub-categories as follows:

- |                   |   |  |
|-------------------|---|--|
| Swine livestock   | - | Breeders (livestock bearer)  |
|                   | - | Sucklings (breeders' offspring)  |
|                   | - | Weanlings (comes from sucklings intended to be breeders or to be sold as fatteners)                      |
|                   | - | Fatteners/finishers (comes from weanlings unfit to become breeders; intended for the production of meat) |
| Poultry livestock | - | Breeders (livestock bearer)  |
|                   | - | Chicks (breeders' offspring intended to be sold as breeders)   |

Biological assets are measured on initial recognition and at each reporting date at its fair value less estimated costs to sell. The fair values are determined based on current market prices of livestock of similar age, breed and genetic merit. Costs to sell include commissions to brokers and dealers,

nonrefundable transfer taxes and duties. Costs to sell exclude transport and other costs necessary to get the biological assets to the market.

Agricultural produce is the harvested product of the Group's biological assets. A harvest occurs when agricultural produce is either detached from the bearer biological asset or when a biological asset's life processes cease. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated costs to sell is recognized in the consolidated statement of income in the period in which it arises. The agricultural produce in swine livestock is the suckling that transforms into weanling then into fatteners/finishers, while the agricultural produce in poultry livestock is the hatched chick and table eggs.

A gain or loss on initial recognition of a biological asset at fair value less estimated costs to sell and from a change in fair value less estimated costs to sell of a biological asset are included in the consolidated statement of income in the period in which it arises.

#### Goodwill

Goodwill acquired in a business combination from the acquisition date is allocated to each of the Group's cash-generating units, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segments as determined in accordance with PFRS 8, *Operating Segments*.

Following initial recognition, goodwill is measured at cost, less any accumulated impairment loss. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (see Impairment of Nonfinancial Assets).

Where goodwill forms part of a cash-generating unit 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 cash-generating unit retained.

#### Bank Licenses

Bank licenses arise from the acquisition of branches of a local bank by the Group and commercial bank license. The Group's bank licenses have indefinite useful lives and are subject to annual individual impairment testing.

#### Intangible Assets

Intangible assets (other than goodwill) 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 acquisition date. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment loss, if any.

The EUL of intangible assets are assessed to be either finite or indefinite.

The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives.

The period and the method of amortization of an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the EUL 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 are treated as changes in accounting estimates. The amortization expense on intangible assets with finite useful lives is recognized under ‘Cost of sales and services’ and ‘General and administrative expenses’ in profit or loss in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset. Intangible assets with finite lives are assessed for impairment, whenever there is an indication that the intangible assets may be impaired.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level (see further discussion under Impairment of Nonfinancial Assets). Such intangibles are not amortized. The intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite useful life is no longer appropriate, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Costs incurred to acquire computer software (which are not an integral part of its related hardware) and costs to bring it to its intended use are capitalized as intangible assets. Costs directly associated with the development of identifiable computer software that generate expected future benefits to the Group are also recognized as intangible assets. All other costs of developing and maintaining computer software programs are recognized as expense when incurred.

A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in profit or loss in the consolidated statement of comprehensive income when the asset is derecognized.

A summary of the policies applied to the Group’s intangible assets follows:

|                                  | Technology Licenses  | Branch Licenses | Product Formulation and Brands | Software Costs   | Customer Relationship      | Trademarks      |
|----------------------------------|--|-----------------|--------------------------------|--|----------------------------|-----------------|
| EUL                              | Finite (12 to 13.75 years)                                     | Indefinite      | Indefinite                     | Finite (5 years)   | Finite (35 years)          | Indefinite      |
| Amortization method used         | Amortized on a straight-line basis over the EUL of the license | No amortization | No amortization                | Amortized on a straight-line basis over the EUL of the software cost | Straight line amortization | No amortization |
| Internally generated or acquired | Acquired   | Acquired        | Acquired                       | Acquired   | Acquired                   | Acquired        |

Impairment of Nonfinancial Assets

This accounting policy applies primarily to the Group’s ‘Investments in associates and joint ventures’, ‘Investment properties’, ‘Property, plant and equipment’, ‘Biological assets at cost’ , ‘Intangible assets’, ‘Goodwill’, “Right-of-Use assets” and ‘Deferred subscriber acquisition and retention costs’.

Except for goodwill and intangible assets with indefinite lives which are tested for impairment annually, the Group assesses at each reporting date whether there is an 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 unit’s) 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).

Impairment losses or reversal of impairment losses from continuing operations are recognized under 'Provision for (reversal of) impairment losses and others' in profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

*Property, plant and equipment, investment properties, right-of-use assets, intangible assets with definite useful lives and costs*

For property, plant and equipment, investment properties, intangible assets with definite useful lives, 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 depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the consolidated statement of comprehensive income. After such a reversal, the depreciation 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 useful 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 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 to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

The Group performs its impairment test of goodwill every annually.

*Investments in associates and joint ventures*

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates and joint ventures. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount under 'Impairment losses and others' in profit or loss.

*Intangible assets with indefinite useful lives*

Intangible assets with indefinite useful lives are tested for impairment annually as of year-end either individually or at the cash-generating unit level, as appropriate.

### Equity

Common and preferred stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Additional paid-in capital' in the consolidated statement of changes in equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Retained earnings represent the cumulative balance of periodic net income/loss, dividend distributions, prior period adjustments and effect of changes in accounting policy and capital adjustments.

### Treasury Shares

Treasury shares are recorded at cost and are presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value. The excess of cost over par value upon retirement is debited to the following accounts in the order given: (a) additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued, and (b) retained earnings. No gain or loss is recognized in profit or on the purchase, sale, issue or cancellation of the Group's own equity instruments.

## **Significant Accounting Policies Generally Applicable to Foods, Agro-Industrial and Commodities and Petrochemicals**

### Revenue Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

#### *Sales of goods*

Revenue from sale of goods and services is recognized at the point in time when control of the goods or services is transferred to the customer, generally on delivery of the goods. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods and services, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer, if any.

#### *Sale of sugar*

Sale of raw sugar is recognized upon (a) endorsement and transfer of quedans for quedan-based sales and (b) shipment or delivery and acceptance by the customers for physical sugar sales. Sale of refined sugar and alcohol is recognized upon shipment or delivery and acceptance by the customers. Sale of molasses warehouse receipts, which represents ownership title over the molasses inventories.

#### *Rendering of tolling services*

Revenue derived from tolling activities is recognized as revenue at a point in time when the related services have been rendered.

### Revenue Recognition (Prior to adoption of PFRS 15)

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. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties. 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 principal in all of its revenue arrangements.

*Sale of goods*

Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts, prompt payment discounts and volume rebates.

*Rendering of tolling services*

Revenue derived from tolling activities is recognized as revenue when the related services have been rendered.

**Significant Accounting Policies Generally Applicable to Air Transportation**

Revenue Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

Revenue from contracts with passengers and cargo customers, and any related revenue from services incidental to the transportation of passengers, is recognized when carriage is provided or when the passenger is lifted in exchange for an amount that reflects the consideration to which the Group expects to be entitled to.

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of air transportation services*

Passenger ticket and cargo waybill sales are initially recorded as contract liabilities under 'Unearned transportation revenue' account in the consolidated statement of financial position until earned and recognized under 'Revenue' account in the consolidated statement of comprehensive income when carriage is provided or when the passenger is lifted or flown.

Prior to the adoption of PFRS 15, passenger ticket and cargo waybill sales, excluding portion relating to awards under Lifestyle Rewards Program, are initially recorded under 'Unearned transportation revenue' account in the consolidated statement of financial position until earned and recognized under 'Revenue' account in the consolidated statement of comprehensive income when carriage is provided or when the passenger is lifted.

*Flight and booking services*

Revenue from services incidental to the transportation of passengers such as excess baggage, inflight sales and rebooking and website administration fees are initially recognized as contract liabilities under 'Unearned transportation revenue' account in the consolidated statement of financial position until the services are rendered.

Before the adoption of PFRS 15, ancillary fees (that is, baggage and booking fees) are recognized at the time of booking.

*Other ancillary revenue*

Other revenue such as refund surcharges, service income and cancellation fees are recognized when the services are provided.

*Liability under Lifestyle Rewards Program*

The Group operates a lifestyle rewards program called 'Getgo'. A portion of passenger revenue attributable to the award of Getgo points, which is estimated based on expected utilization of these benefits, is deferred until utilized. The fair value of the consideration received in respect of the initial sale is allocated to the award credits based on its fair value. The deferred revenue is included under 'Other noncurrent liabilities' account in the consolidated statement of financial position. Any remaining unutilized benefits are recognized as revenue upon redemption or expiry.

There have been no changes in the accounting policy on the deferral and subsequent recognition of passenger revenue related to the award of Getgo points as effect of the adoption of PFRS 15.

### **Significant Accounting Policies Generally Applicable to Real Estate and Hotels**

#### Revenue Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

##### *Revenue from Contract with Customers*

The Group primarily derives its real estate revenue from the sale of vertical and horizontal real estate projects. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water, electricity, and common use service area in its mall retail spaces, wherein it is acting as agent.

The following specific recognition criteria must also be met before revenue is recognized:

##### *Real estate sales – Philippines Operations – Performance obligation is satisfied over time*

The Group derives its real estate revenue from sale of lots, house and lot 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 input method. Input methods recognize revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation. Progress is measured based on actual resources consumed such as materials, labor hours expended and actual overhead incurred relative to the total expected inputs to the satisfaction of that performance obligation, or the total estimated development costs of the real estate project. The Group uses the cost accumulated by the accounting department to determine the actual resources used. Input method exclude the effects of any inputs that do not depict the entity's performance in transferring control of goods or services to the customer.

Estimated development costs of the real estate project include costs of land, land development, building costs, professional fees, depreciation of equipment directly used in the construction, payments for permits and licenses. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts, form part of total project costs on a prospective basis.

Any excess of progress of work over the right to an amount of consideration that is unconditional, recognized as residential and development receivables, under trade receivables, is included in the "contract asset" account in the asset section of the consolidated statement of financial position.

Any excess of collections over the total of recognized trade receivables and contract assets is included in the "contract liabilities" account in the liabilities section of the consolidated statement of financial position.

##### *Real estate sales – Philippines Operations – Performance obligation is satisfied at a point in time*

The Group also derives real estate revenue from sale of parcels of raw land. Revenue from the sale of these parcels of raw land are recognized at a point in time (i.e., upon transfer of control to the buyer) 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 but the Group does not have an enforceable right to payment for performance completed to date. The Group is only entitled to payment upon delivery of the land to the buyer and if the contract is terminated, the Group has to return all payments made by the buyer.

#### *Real estate sales – China Operations*

Taking into account the contract terms per house purchase and sales contract, Chengdu Xin Yao's business practice and the legal and regulatory environment in China, most of the property sales contracts in China do not meet the criteria for recognizing revenue over time and therefore, revenue from property sales continues to be recognized at a point in time, while some property sales contracts meet the criteria for recognizing revenue over time as the properties have no alternative use to the Group due to contractual reasons and the Group has an enforceable right to payment from customer for performance completed to date. Under PFRS 15, revenue from property sales is generally recognized when the property is accepted by the customer, or deemed as accepted according to the contract, whichever is earlier, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

#### *Rental income*

The Group leases its commercial and office real estate properties to others through operating leases. Rental income on leased properties is recognized on a straight-line basis over the lease term and may include contingent rents based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

#### *Amusement income*

Revenue is recognized upon rendering of services or at a point in time.

#### *Revenue from hotel operations*

Revenue from hotel operations is recognized when services are rendered or at a point in time. Revenue from banquets and other special events are recognized when the events take place or at a point in time. Rental income on leased areas of the hotel is recognized on a straight-line basis over the lease term. Revenue from food and beverage are recognized when these are served. Other income from transport, laundry, valet and other related hotel services are recognized when services are rendered.

#### *Interest income*

Interest income is recognized as the interest accrues using the effective interest rate (EIR) method.

#### *Other income*

Other income is recognized when earned.

#### Costs Recognition (Upon adoption of PFRS 15 beginning January 1, 2018)

##### *Cost of Real Estate Sales*

The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

#### *Costs and General and Administrative Expense*

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

Costs and expenses are recognized in the consolidated statement of comprehensive income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

#### *Contract Balances*

##### *Receivables*

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

##### *Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is unconditional.

##### *Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs under the contract.

The contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced.

##### *Costs to obtain contract*

The incremental costs of obtaining a contract with a customer are recognized as an asset if the Group expects to recover them. The Group has determined that commissions paid to brokers and marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Real estate costs and expenses" account in the consolidated statement of income.

Costs incurred prior to obtaining contract with customer are not capitalized but are expensed as incurred.

##### *Contract fulfillment assets*

Contract fulfillment costs are divided into: (i) costs that give rise to an asset; and (ii) costs that are expensed as incurred. When determining the appropriate accounting treatment for such costs, the

Group firstly considers any other applicable standards. If those standards preclude capitalization of a particular cost, then an asset is not recognized under PFRS 15.

If other standards are not applicable to contract fulfillment costs, the Group applies the following criteria which, if met, result in capitalization: (i) the costs directly relate to a contract or to a specifically identifiable anticipated contract; (ii) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and (iii) the costs are expected to be recovered. The assessment of this criteria requires the application of judgement, in particular when considering if costs generate or enhance resources to be used to satisfy future performance obligations and whether costs are expected to be recoverable.

The Group's contract fulfillment assets pertain to connection fees and land acquisition costs.

*Amortization, de-recognition and impairment of capitalized costs to obtain a contract*

The Group amortizes capitalized costs to obtain a contract to cost of sales over the expected construction period using percentage of completion following the pattern of real estate revenue recognition. The amortization is included within general and administrative expenses.

A capitalized cost to obtain a contract is derecognized either when it is disposed of or when no further economic benefits are expected to flow from its use or disposal.

At each reporting date, the Group determines whether there is an indication that cost to obtain a contract maybe impaired. If such indication exists, the Group makes an estimate by comparing the carrying amount of the assets to the remaining amount of consideration that the Group expects to receive less the costs that relate to providing services under the relevant contract. In determining the estimated amount of consideration, the Group uses the same principles as it does to determine the contract transaction price, except that any constraints used to reduce the transaction price will be removed for the impairment test.

Where the relevant costs or specific performance obligations are demonstrating marginal profitability or other indicators of impairment, judgement is required in ascertaining whether or not the future economic benefits from these contracts are sufficient to recover these assets. In performing this impairment assessment, management is required to make an assessment of the costs to complete the contract. The ability to accurately forecast such costs involves estimates around cost savings to be achieved over time, anticipated profitability of the contract, as well as future performance against any contract-specific performance indicators that could trigger variable consideration, or service credits. Where a contract is anticipated to make a loss, these judgements are also relevant in determining whether or not an onerous contract provision is required and how this is to be measured.

Revenue Recognition (Prior to adoption of PFRS 15)

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, regardless of when the payment is received. Revenue is measured at the consideration received or receivable, taking into the account contractually defined terms of payment and excluding taxes or duty.

The following specific recognition criteria must also be met before revenue is recognized:

*Real estate sales*

Revenue from sales of real estate and cost from completed projects is accounted for using the percentage of completion (POC). In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-1, the POC 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 equitable

interest has been transferred to buyer and the costs incurred or to be incurred can be measured reliably. Under the POC method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of project.

Revenue recognition commences when the 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 required buyer's equity is met. Buyer's equity represents the percentage of collection over the total selling price that the buyer has paid the Group and it is at this collection level that the Group assesses that it is probable that the economic benefits will flow to the Group because of certainty of collection of the remaining balance of the selling price. This gives the buyer, a stake in the property, the level of which is sufficient enough to mitigate the risks of loss through default which would motivate the buyer to honor its obligations to the Group.

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented under the "Deposits from real estate buyers" account which is shown as part of the "Deposits and other current liabilities" and "Deposits and other noncurrent liabilities" account in the liabilities section of the consolidated statement of financial position.

Penalties are recognized as income when cash is received and forfeitures from cancelled sales and reservation fees are recognized as income when the cancellation of sales and reservation fees of buyers has been determined and established.

#### *Rental income*

The Group leases its commercial and office real estate properties to others through operating leases. Rental income on leased properties is recognized on a straight-line basis over the lease term and may include contingent rents based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

#### *Revenue from hotel operations*

Revenue from hotel operations is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place. Rental income on leased areas of the hotel is recognized on a straight-line basis over the lease term. Revenue from food and beverage are recognized when these are served. Other income from transport, laundry, valet and other related hotel services are recognized when services are rendered.

#### Costs Recognition (Prior to adoption of PFRS 15)

##### *Cost of Real Estate Sales*

The Group recognizes costs relating to satisfied performance obligations as these are incurred taking into consideration the contract fulfillment assets such as land and connection fees. These include costs of land, land development costs, building costs, professional fees, depreciation, permits and licenses and capitalized borrowing costs. These costs are allocated to the saleable area, with the portion allocable to the sold area being recognized as costs of sales while the portion allocable to the unsold area being recognized as part of real estate inventories.

Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract

settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

#### *Costs and General and Administrative Expense*

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

Costs and expenses are recognized in the consolidated statement of comprehensive income:

- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

#### **Significant Accounting Policies Generally Applicable to Banking**

The following revenues which are generally applicable to the banking segment are outside of the scope of PFRS 15:

##### *Interest income*

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVTPL, FVOCI and AFS investments, interest income is recorded at 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 carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and 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, the Group 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 Group 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.

Unearned discount is recognized as income over the terms of the receivables using the effective interest method and is shown as a deduction from loans.

##### *Service fees and commission income*

The Group earns fees and commission income from the diverse range of services it provides to its customers. 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, portfolio fees, credit-related

fees and other service and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

*Trading and securities gain (loss)*

Trading and securities gain (loss) represents results arising from trading activities, including all gains losses from changes in the fair values of FVPL investments. It also includes gains and losses realized from sale of debt securities at FVOCI and AFS investments.

*Gain from sale of properties, investments and other assets*

Gain from sale of properties, investments and other assets is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

**Other Income of the Group (Outside of Scope of PFRS 15)**

*Rental income*

The Group leases its commercial and office real estate properties to others through operating leases. Rental income on leased properties is recognized on a straight-line basis over the lease term and may include contingent rents based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract. Contingent rents are recognized as revenue in the period in which they are earned.

*Dividend income*

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

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of a past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. 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 an interest expense under 'Financing costs and other charges' account in the consolidated statement of comprehensive income. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is probable.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Pension Costs

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 profit or loss. 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 profit or loss.

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 refunds from the plan or reductions in future contributions 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.

#### *Termination benefit*

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

*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.

Income Taxes

*Current tax*

Current 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 as of reporting date.

*Deferred tax*

Deferred tax is provided using the liability method on all temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or 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 nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Where the deferred tax asset relating to the deductible temporary difference 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 nor future taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary differences can be utilized.

The carrying amounts of deferred tax assets are reviewed at each reporting date and reduced to extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date, and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recognized.

Deferred tax assets and 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 as of reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss in the consolidated statement of comprehensive income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### Leases – Group as a Lessee (Upon adoption of PFRS 16 beginning January 1, 2019)

The Group assesses whether a contract is, or contains a lease, at the inception of a contract. This assessment involves the exercise of judgment about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of the asset, whether the Group has the right to direct the use of the asset. The Group recognizes a right-of-use (ROU) asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases and leases of low-value assets.

#### *Right-of-use assets*

The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received, and any estimated costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The depreciation period for each class of ROU assets follow:

|   | Period           |
|---|------------------|
| Land and improvements                         | 2 to 50 years    |
| Buildings and improvements                    | 2 to 30 years    |
| Passenger aircraft and other flight equipment | 1.25 to 18 years |
| Transportation and other equipment            | 2 to 30 years    |

ROU assets are also subject to impairment.

#### *Lease liabilities*

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the commencement date if the interest rate implicit to the lease is not readily determinable. After the

commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The current portion of lease liabilities is presented within the “Other current liabilities” account in the consolidated statement of financial position.

#### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of other flight equipment, furniture and fixtures, and machineries (i.e., lease term of 12 months or less). It also applies the lease of low-value assets recognition exemption to leases of office spaces that are considered low-value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

#### Leases (Prior to adoption of PFRS 16)

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, 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 an 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.

#### *Group as a 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 is included in the consolidated statement of financial position under ‘Property, plant and equipment’ with the corresponding liability to the lessor included under ‘Long-term debt’. 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 profit or loss in the consolidated statement of comprehensive income. Capitalized leased assets are depreciated over the shorter of the EUL 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. Operating lease payments are recognized as an expense under ‘Cost of sales and services’ and ‘General administrative expenses’ in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

A sale and leaseback transaction includes the sale of an asset and the leasing back of the same asset. If the leaseback is classified as an operating lease, then, any gain is recognized immediately in the profit or loss if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

- If the sale price is below the fair value, then, the gain or loss is recognized immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortized over the period that the asset is expected to be used.
- If the sale price is above the fair value, then, any gain is deferred and amortized over the period that the asset is expected to be used.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognized immediately as a on the sale.

Applicable to both periods prior to and upon adoption of PFRS 16 beginning January 1, 2019

*Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. 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. Contingent rents are recognized as revenue in the period in which they are earned.

Joint Operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognize in relation to its interest in a joint operation its assets, including its share of any assets held jointly; liabilities, including its share of any liabilities incurred jointly; revenue from the sale of its share of the output arising from the joint operation; share of the revenue from the sale of the output by the joint operation; and expenses, including its share of any expenses incurred jointly.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the period attributable to the ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net income attributable to ordinary equity holders of the Parent Company (after deducting interest of the preferred shares, if any) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all the dilutive potential common shares into common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company in the case of cash dividends, and the BOD and shareholders of the Parent Company in the case of stock dividends.

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 6 to the consolidated financial statements.

### Subsequent Events

Any post-year-end event up to the date of approval of the BOD of the consolidated financial statements that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the consolidated financial statements, when material.

### Standards Issued but not yet Effective

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

#### *Effective beginning on or after January 1, 2020*

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

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

- *Amendments to PFRS 9, PAS 39, Financial Instruments: Recognition and Measurement and PFRS 7, Financial Instruments: Disclosures*  
The amendments is in response to the ongoing reform of interest rate benchmarks around the world. Many interbank offered rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in the next few years. This presents potential effect on hedge accounting given the extensive use of interest rate benchmarks in global financial markets. This amendments aims to provide relief for hedging relationships.

This amendment is effective retrospectively for periods beginning on or after January 1, 2020, with early application permitted.

- *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*

- *PIC Q&A 2018-12, PFRS 15 Implementation issues affecting the Real Estate Industry, and PIC Q&A 2018-14, PFRS 15 Accounting for Cancellation of Real Estate Sales*  
On February 14, 2018, the PIC issued PIC Q&A 2018-12 which provides guidance on some implementation issues of PFRS 15 affecting the real estate industry. On October 25, 2018 and

February 8, 2019, the SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three years until December 31, 2020:

- a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A 2018-12-E;
- b. Accounting for significant financing component discussed in PIC Q&A 2018-12-D, and;
- c. Accounting for Common Usage Service Area (CUSA) Charges discussed in PIC Q&A 2018-12-H.

Under the same SEC Memorandum Circular No. 3 Series of 2019, the adoption of PIC Q&A 2018-14 was also deferred until December 31, 2020.

Except for the CUSA charges discussed under PIC Q&A 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 2018-12 and PIC Q&A 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

As the Group already excludes land and uninstalled materials in the determination of POC, it availed of the deferral of adoption of provisions (b) and (c) of PIC Q&A 2018-12 and PIC Q&A 2018-14. These provisions would have the following impact in the consolidated financial statements:

- a. The mismatch between the POC of the real estate projects and right to an amount of consideration based on the schedule of payments explicit in the contract to sell would constitute a significant financing component. Interest income would have been recognized for contract assets and interest expense for contract liabilities using effective interest rate method and this would have impacted retained earnings as at January 1, 2018 and the revenue from real estate sales in 2019 and 2018. Currently, any significant financing component arising from the mismatch discussed above is not considered for revenue recognition purposes.
  - b. The Group is acting as a principal for the provision of air-conditioning services. This would have resulted in the gross presentation of the related revenue and the related expenses and cost. Currently, the related revenue is presented net of costs and expenses. These would not result in any adjustment in the retained earnings as of January 1, 2018 and net income for 2019 and 2018.
  - c. Upon sales cancellation, the repossessed inventory would be recorded at fair value plus cost to repossess (or fair value less cost to repossess if this would have been opted). This would have increased retained earnings as at January 1, 2018 and gain from repossession in 2019 and 2018. Currently, the Group records the repossessed inventory at its original carrying amount and recognize any difference between the carrying amount of the derecognized receivable and the repossessed property in profit or loss.
- *IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (IAS 23, Borrowing Cost) for the Real Estate Industry*

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

qualifying asset under IAS 23 considering that these inventories are ready for their intended sale in their current condition.

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

On February 11, 2020, the SEC issued Memorandum Circular No. 4, Series of 2020, providing relief to the real estate industry by deferring the mandatory implementation of the above IFRIC Agenda Decision until December 31, 2020. Effective January 1, 2021, the real estate industry will adopt the IFRIC Agenda Decision and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. A real estate company may opt not to avail of the deferral and instead comply in full with the requirements of the IFRIC agenda decision.

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

The Group opted to avail of the relief as provided by the SEC. Had the Group adopted the IFRIC Agenda Decision, borrowing costs capitalized to real estate inventories related to projects with pre-selling activities would have been expensed out in the period incurred.

This adjustment would have been applied retrospectively and would have resulted in the restatement of prior year financial statements. A restatement would have impacted interest expense, cost of sales, provision for deferred income tax, real estate inventories, deferred tax liability and opening balance of retained earnings.

- *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.

#### *Deferred effectivity*

- *Amendments to PFRS 10 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, *Business Combinations*. 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.

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### 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments and estimates 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 estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements, as they become reasonably determinable.

Judgments and estimates 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 effect on the amounts recognized in the consolidated financial statements:

a. *Revenue and cost recognition on real estate sales (Beginning January 1, 2018)*

#### Identifying performance obligation

In 2018, the Group entered into a contract to sell covering a land upon which, site preparation will be performed prior to turnover to the buyer. The Group concluded that the revenue and cost of real estate sales should be recorded upon completion of the site preparation activities as specifically stated in the contract to sell, which is at a point in time, since there is only one performance obligation (i.e., developed land) and the Group does not have a right to demand payment for work performed to date from the buyer.

In 2018, the Group entered into a contract to sell covering raw land. The Group concluded that there is one performance obligation in this contract, the raw land. Revenue and cost of real estate sales should be recorded upon delivery of the raw land to the buyer which is at a point in time.

#### Revenue recognition method and measure of progress

For the revenue from real estate sales in the Philippines, the Group concluded that revenue 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. 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, the Group considers the significance of the buyer's initial payments in relation to the total contract price. Collectability is also assessed by considering factors such as past history with the buyer, age and pricing of the property. Management regularly evaluates the historical cancellations and back-outs if it would still support its current threshold of buyers' equity before commencing revenue recognition.

The Group has determined that input 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 customers.

#### Principal versus agent considerations

The contract for the mall retail spaces and office spaces leased out by the Group to its tenants includes the right to charge for the electricity usage, water usage, air conditioning charges and common usage service area (CUSA) like maintenance, janitorial and security services.

For the electricity and water usage and CUSA, the Group determined that it is acting as an agent because the promise of the Group to the tenants is to arrange for the electricity and water supply to be provided by a utility company and to provide services such as maintenance, janitorial and security services. The utility and service companies, and not the real estate developer, are primary responsible for the provisioning of the utilities while the Group, administers the leased spaces and coordinates with the utility and service companies to ensure that tenants have access to these utilities. The Group does not have the discretion on the pricing of the services provided since the price is based on the actual rate charged by the utility providers.

For the provision of air conditioning, the Group acts as a principal. This is because it is the Group who retains the right to direct the service provider of air conditioning to the leased premises. The right to the services mentioned never transfers to the tenant and the Group has the discretion on how to price the air conditioning charges. However, since the Group has availed of the relief to the real estate industry by deferring the application of accounting to CUSA charges discussed in PIC Q&A No. 2018-12-H, the Group retained its current assessment and accounting for air conditioning charges.

#### Revenue and cost recognition

The Group's real estate sales is recognized over time and the percentage-of-completion is determined using input method measured principally based on total actual cost of resources consumed such as materials, labor hours expended and actual overhead incurred over the total expected project development cost. Actual costs also include incurred costs but not yet billed which are estimated by the project engineers. Expected project development costs include costs of land, land development, building costs, professional fees, depreciation of equipment directly used in the construction, payments for permits and licenses. Revisions in estimated development costs brought about by increases in projected costs in excess of the original budgeted amounts, form part of total project costs on a prospective basis and is allocated between costs of sales and real estate inventories.

#### Real estate revenue and cost recognition from pre-selling in Chengdu Project

In July 2018, Chengdu Xin Yao Real Estate Development Co. Ltd. secured the license to sell the condominium units in Phase 1 of its residential development in Chengdu Xin Yao Ban Bian Jie. As of December 31, 2019 and 2018, the deposits received from buyers amounted to ₱9.1 billion and ₱8.2 billion, respectively.

Revenue from the sale of real estate units of Chengdu Xin Yao will be accounted for under a full accrual method (i.e., at a point in time) in the Group's consolidated financial statements. Under paragraph 35(c) of PFRS 15, *"An entity shall consider the terms of the contract, as well as any laws that apply to the contract, when evaluating whether it has an enforceable right to payment for performance completed to date in accordance with paragraph 35 (c). The right to payment for performance completed to date does not need to be for a fixed amount. However, at all times throughout the duration of the contract, the entity must be entitled to an amount that at least compensates the entity for performance completed to date if the contract is terminated by the*

*customer or another party for reasons other than the entity's failure to perform as promised."* Based on management's assessment, throughout the duration of the contract term, Chengdu Xin Yao is entitled to an amount that does not compensate it for performance completed to date if the contract is terminated by the buyer or another party for reasons other than Chengdu Xin Yao's failure to perform as promised.

*b. Revenue recognition on sale of goods from the food business*

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; and (d) recognition of revenue as the Group satisfies the performance obligation.

*i. Existence of a contract*

The Group enters into a contract with customer through an approved purchase order which constitutes a valid contract as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified. In the case of sales to key accounts and distributors, the combined approved purchase order and trading terms agreement/exclusive distributorship agreement constitute a valid contract. 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.

*ii. 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.

Based on management assessment, other than the sale of goods and services, no other performance obligations were identified except in the case of milling revenue.

*iii. Recognition of revenue as the Group satisfies the performance obligation*

The Group recognizes its revenue from the food business at a point in time, when the goods are sold and delivered and when services are already rendered.

*iv. Recognition of milling revenue under output sharing agreement*

The Group applies both output sharing agreement and cane purchase agreement in relation to milling operation. Under output sharing agreement, milling revenue is recognized based on the fair value of the millshare at average raw sugar selling price on the month with sugar production after considering in-purchase, which represents cane purchase agreement. Under cane purchase agreement, the Group purchases raw sugar from the traders and/or planters. The in-purchase rate is derived by determining the total raw sugar purchases and the total planters' share. Raw production costs are allocated systematically based on the output sharing and cane purchase agreement rates.

c. *Classification of financial assets from the banking business*

*Evaluation of business model in managing financial instruments*

The Group manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

The Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group, various risks and key performance indicators being reviewed and monitored by responsible officers, as well as the manner of compensation for them. The Bank's BOD approved its documentation of business models which contains broad categories of business models. The business model includes the Bank's lending activities as well as treasury business activities broken down into liquidity and investment portfolios. In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

*Testing the cash flow characteristics of financial assets*

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk), i.e., cash flows that are non-SPPI, does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

d. *Classification of financial assets from the other businesses*

The Group classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial assets are SPPI on the principal amount outstanding.

The Group performs the business model assessment based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of those assets managed or on the contractual cash flows collected
- Expected frequency, value, and timing of sales

*e. Determination of fair values of financial instruments*

The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any change in fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income.

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives. Refer to Note 5 for the fair value measurements of financial instruments.

*f. Revenue from real estate sales (Prior to January 1, 2018)*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgment based on, among others:

- buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment (buyer's equity); and
- stage of completion of the project determined using cost-to-cost method.

The Group has set a certain percentage of collection over the total selling price in determining buyer's commitment on the sale. It is when the buyer's investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group.

*g. Determining whether it is reasonably certain that a renewal and termination option will be exercised – Group as a lessee (Beginning January 1, 2019)*

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

The Group has several lease contracts that include renewal and termination options. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or terminate (e.g., a change in business strategy).

For most of its leases, the Group did not include the renewal or termination options in the lease term as the Group assesses that these options are not reasonably certain to be exercised. However, for some leases of parcels of land, the Group included the renewal period as part of the lease term due to significance of these assets to its operations. These leases have a short non-cancellable period (i.e., one year) and there will be a significant negative effect on the operations if a replacement is not readily available. Refer to Note 42 for the disclosure on the Group's leases.

*h. Classification of leases*

Operating Lease

*Operating lease commitments - Group as lessee (Prior to January 1, 2019)*

The Group has entered into leases on premises it uses for its operations. The Group has determined, based on evaluation of the terms and conditions of the lease agreements that the significant risk and rewards of ownership to these properties did not transfer to the Group. In determining this, the Group considers the following:

- the lease does not transfer the ownership of the asset to the lessee by the end of the lease term; and
- the related lease term does not approximate the EUL of the assets being leased.

*Operating lease commitments - Group as lessor*

Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership to these properties. In determining this, the Group considers, the following:

- the leases do not provide for an option to purchase or transfer ownership of the property at the end of the lease; and
- the related lease term does not approximate the EUL of the assets being leased.

Finance Lease

*Group as lessee (Prior to January 1, 2019)*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments payable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has obtained all significant risks and rewards of ownership of the properties it leased on finance leases.

*Group as lessor*

The Group has determined based on evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments receivable amounts to at least substantially all of the fair value of leased asset, lease term if for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee) that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

Refer to Note 42 for the disclosure on the Group's leases.

*i. Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the 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, the property is accounted for as an 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 an investment property. The Group considers each property separately in making its judgment.

*j. Consolidation of SPEs*

The Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the purchase of aircraft and assumption of certain liabilities. In all such cases, management makes an assessment as to whether the Group has: (a) power over the SPEs; (b) the right over the returns of its SPEs; and (c) the ability to use power over the SPEs to affect the amount of the Group's return, and based on these assessments, the SPEs are consolidated as a subsidiary or associated company. In making these assessments, the management considers the underlying economic substance of the transaction and not only the contractual terms. The Group has assessed that it will benefit from the economic benefits of the SPEs' activities and it will affect the returns for the Group. The Group is directly exposed to the risks and returns from its involvement with the SPEs. Such rights and risks associated with the benefits and returns are indicators of control. Accordingly, the SPEs are consolidated.

Upon loss of control, the Group derecognizes the assets and liabilities of its SPEs and any surplus or deficit is recognized in profit or loss.

*k. Determination of functional currency*

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine an entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, each entity in the Group considers the following:

- a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- b. the currency in which funds from financing activities are generated; and
- c. the currency in which receipts from operating activities are usually retained.

In the case of an intermediate holding company or finance subsidiary, the principal consideration of management is whether it is an extension of the Parent Company and performing the functions of the Parent Company - i.e., whether its role is simply to hold the investment in, or provide finance to, the foreign operation on behalf of the Parent Company or whether its functions are essentially an extension of a local operation (e.g., performing selling, payroll or similar activities for that operation) or indeed it is undertaking activities on its own account. In the former case, the functional currency of the entity is the same with that of the Parent Company; while in the latter case, the functional currency of the entity would be assessed separately.

*l. Significant influence over an associate with less than 20.0% ownership*

In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.

There are instances that an investor exercises significant influence even if its ownership is less than 20.0%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; or (e) provision of essential technical information.

### Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

#### *a. Impairment of goodwill and intangible assets*

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of reporting date. The recoverable amounts of the intangible assets were determined based on value-in-use calculations using cash flow projections from financial budgets approved by management covering a five-year period. The following assumptions were also used in computing value-in-use:

*Growth rate estimates* - growth rates include long-term growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

Value-in-use is the most sensitive to changes in revenue growth rates and discount rates.

As of December 31, 2019 and 2018, the balance of the Group's goodwill and intangible assets, net of accumulated depreciation, amortization and impairment loss follow:

|                             | <b>2019</b>            | 2018            |
|-----------------------------|------------------------|-----------------|
| Goodwill (Note 19)          | <b>₱32,005,604,356</b> | ₱32,005,604,356 |
| Intangible assets (Note 18) | <b>13,898,390,399</b>  | 13,954,424,592  |

#### *b. Expected credit losses on receivables*

For loans and receivables from the banking business, ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessment should be done individually or collectively;
- Quantitative and qualitative criteria for determining whether there have 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 input;
- 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; and
- Selection of forward-looking information and determination of probability weightings to derive the ECL.

For installment contracts receivables and contract assets from the real estate business, the Group uses vintage analysis approach to calculate ECLs for installment contracts and contract assets. The vintage analysis accounts for expected losses by calculating the cumulative loss rates of a given loan pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the PD model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

For other trade receivables, provision matrix was used to calculate ECLs. The provision rates are based on historical default rates days past due for groupings of various segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group then calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

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 Note 11 for the carrying amount of receivables subject to ECL and the related allowance for credit losses as of December 31, 2019.

c. *Revenue and cost recognition from the real estate business*

The Group's revenue recognition policies 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 from real estate where performance obligation is satisfied over time and recognized based on the percentage of completion is measured principally on the basis of the estimated completion by reference to the actual costs incurred to date over the estimated total costs of the project. For the years ended December 31, 2019, 2018 and 2017, the real estate sales recognized over time amounted to ₱8.7 billion, ₱8.3 billion and ₱6.0 billion, respectively, while the related cost of real estate sales amounted to ₱4.2 billion, ₱4.5 billion and ₱3.1 billion, respectively.

The Group also recognized revenue when control is passed on a certain point in time. The Group's revenue and cost of real estate sales were recognized upon transfer of control to the buyer. Real estate sales pertaining to this transaction amounted to ₱321.0 million and ₱2.5 billion for the years ended December 31, 2019 and 2018, respectively. The related cost of sales amounted to ₱85.0 million and ₱398.0 million for the years ended December 31, 2019 and 2018, respectively.

d. *Valuation of ROU assets and lease liabilities*

The application of PFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include determining the lease term and determining the interest rate to be used for discounting future cash flows.

*Lease term.* The lease term determined by the Group comprises non-cancellable period of lease contracts, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. For lease contracts with indefinite term the Group estimates the length of the contract to be equal to the economic useful life of noncurrent assets located in the leased property and physically connected with it or determines the length of the contract to be equal to the

average or typical market contract term of particular type of lease. The same economic useful life is applied to determine the depreciation rate of ROU assets.

*Discount rate.* The Group cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is determined using the rate of interest rate swap applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

As at December 31, 2019, the Group's ROU assets and lease liabilities amounted to ₱20.5 billion and ₱21.1 billion, respectively (see Note 42).

*e. Determination of the fair value of intangible assets and property, plant and equipment acquired in a business combination*

The Group measures the identifiable assets and liabilities acquired in a business combination at fair value at the date of acquisition.

The fair value of the intangible assets acquired in a business combination is determined based on the net sales forecast attributable to the intangible assets, growth rate estimates and royalty rates using comparable license agreements. Royalty rates are based on the estimated arm's length royalty rate that would be paid for the use of the intangible assets. Growth rate estimate includes long-term growth rate and terminal growth rate applied to future cash flows beyond the projection period.

The fair value of property, plant and equipment acquired in a business combination is determined based on comparable properties after adjustments for various factors such as location, size and shape of the property. Cost information and current prices of comparable equipment are also utilized to determine the fair value of equipment.

The Group's acquisitions are discussed in Note 44 to the consolidated financial statements.

*f. Determination of NRV of inventories*

The Group, in determining the NRV, considers any adjustment necessary for obsolescence which is generally providing a 100.0% write down for nonmoving items for more than one year. The Group adjusts the cost of inventory to the recoverable value at a level considered adequate to reflect any market decline in the value of the recorded inventories. The Group reviews the classification of the inventories and generally provides adjustments for recoverable values of new, actively sold and slow-moving inventories by reference to prevailing values of the same inventories in the market.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in inventory obsolescence and market decline would increase recorded operating expenses and decrease current assets.

Inventory obsolescence and market decline included under 'Impairment losses and others' in profit or loss in the consolidated statements of comprehensive income are disclosed in Notes 12 and 34 to the consolidated financial statements.

The carrying value of the Group's inventories, net of inventory obsolescence and market decline, is disclosed in Note 12 to the consolidated financial statements.

g. *Estimation of ARO*

The Group is contractually required under certain lease contracts to restore certain leased passenger aircraft to stipulated return condition or to bear a proportionate cost of restoration at the end of the contract period. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased aircraft to its original condition. Since the first operating lease entered by the Group in 2001, these costs are accrued based on an internal estimate which includes certain overhaul, restoration, and redelivery costs at the end of the operating aircraft lease. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis. Calculations of such costs includes assumptions and estimates in respect of the anticipated rate of aircraft utilization which includes flying hours and flying cycles and calendar months of the asset as used.

Assumptions and estimates used to compute ARO are reviewed and updated annually by the Group. As of December 31, 2019 and 2018, the cost of restoration is computed based on the Group's assessment on expected future aircraft utilization.

The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. The recognition of ARO would increase other noncurrent liabilities and repairs and maintenance expense.

The carrying values of the Group's ARO (included under 'Other noncurrent liabilities' in the consolidated statements of financial position) is disclosed in Note 24 to the consolidated financial statements.

h. *Estimation of useful lives of property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost*

The Group estimates the useful lives of its depreciable property, plant and equipment, investment properties, intangible assets with finite life and biological assets at cost based on the period over which the assets are expected to be available for use. The EUL of the said depreciable assets are reviewed at least annually and are updated, if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the EUL of the depreciable property, plant and equipment, investment properties and intangible assets would increase depreciation and amortization expense and decrease noncurrent assets.

The carrying balances of the Group's depreciable assets are disclosed in Notes 15, 16, 17 and 18 to the consolidated financial statements.

i. *Determination of fair values less estimated costs to sell of biological assets*

The fair values of biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit or based on adjusted commercial farmgate prices. Costs to sell costs include commissions to brokers and dealers, nonrefundable transfer taxes and duties. Costs to sell exclude transportation and other costs necessary to get the biological assets to the market. The fair values are reviewed and updated, if expectations differ from previous estimates due to changes brought by both physical change and price changes in the market. It is possible that future results of operations could be materially affected by changes in these estimates brought about by the changes in factors mentioned.

The Group recognized gain (loss) arising from changes in the fair value of biological assets amounting to (₱70.2 million), (₱467.5 million) and ₱118.8 million (included in 'Cost of sales and services' in profit or loss in the consolidated statements of comprehensive income) in 2019, 2018 and 2017, respectively (see Note 17).

The carrying value of the Group's biological assets carried at fair values less estimated costs to sell is disclosed in Note 17 to the consolidated financial statements.

*j. Estimation of pension and other benefits costs*

The determination of the obligation and cost of pension and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates and salary increase rates (see Note 37). Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date.

As of December 31, 2019 and 2018, the balance of the Group's present value of defined benefit obligations and other employee benefits is shown in Note 37 to the consolidated financial statements.

*k. Assessment of impairment of nonfinancial assets*

The Group assesses impairment on its nonfinancial assets (i.e., property, plant and equipment, investment properties, investments in associates and joint ventures, biological assets carried at cost and goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value-in-use and decrease the asset's recoverable amount materially;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

The Group determines an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. In 2019, following the review of the Petrochemical business, the outlook for the industry and Petrochemical's operating plan, a reversal

of impairment loss has been recognized to adjust the carrying value of certain buildings of the Group to their estimated recoverable values, which is the higher of fair value less to sell and value-in-use, but not exceeding the depreciated historical cost that would have been if the impairment had not been recognised.

In the case of goodwill and intangible assets with indefinite lives, at a minimum, such assets are subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for impairment losses on nonfinancial assets recognized in 2019, 2018 and 2017 is disclosed in Note 34 to the consolidated financial statements.

As of December 31, 2019 and 2018, the balance of the Group's nonfinancial assets, net of accumulated depreciation, amortization and impairment loss are shown in Notes 14, 15, 16 and 18 to the consolidated financial statements.

*l. Recognition of deferred tax assets*

The Group reviews the carrying amounts of its deferred tax assets at each reporting date and reduces the deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of deferred tax assets to be utilized.

The Group's recognized deferred tax assets are shown in Note 38.

The Group has certain subsidiaries which enjoy the benefits of an income tax holiday (ITH). As such, no deferred tax assets were set up on certain gross deductible temporary differences that are expected to reverse or expire within the ITH period (see Note 38).

The total amount of temporary differences for which the Group did not recognize any deferred tax assets are shown in Note 38.

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#### **4. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise cash and cash equivalents, investment securities at amortized cost, financial assets at FVTPL, financial assets at FVOCI, financial liabilities at FVTPL and interest-bearing loans and borrowings. The main purpose of these financial instruments is to finance the Group's operations and related capital expenditures. The Group has various other financial assets and financial liabilities, such as receivables and payables which arise directly from its operations. Also, the Parent Company and certain subsidiaries are counterparties to derivative contracts, such as interest rate swaps, currency forwards, cross currency swaps, currency options and commodity swaps and options. These derivatives are entered into as a means of reducing or managing their respective foreign exchange and interest rate exposures.

The BOD of the Parent Company and its subsidiaries review and approve the policies for managing each of these risks which are summarized below, together with the related risk management structure.

### Risk Management Structure

The BOD of the Parent Company and the respective BODs of each subsidiary are ultimately responsible for the oversight of the Group's risk management processes that involve identifying, measuring, analyzing, monitoring and controlling risks.

The risk management framework encompasses environmental scanning, the identification and assessment of business risks, development of risk management strategies, design and implementation of risk management capabilities and appropriate responses, monitoring risks and risk management performance, and identification of areas and opportunities for improvement in the risk management process.

Each BOD has created the board-level Audit Committee (AC) to spearhead the managing and monitoring of risks.

### *AC*

The AC shall assist the Group's BOD in its fiduciary responsibility for the over-all effectiveness of risk management systems and the internal audit functions of the Group. Furthermore, it is also the AC's purpose to lead in the general evaluation and to provide assistance in the continuous improvements of risk management, control and governance processes.

The AC also aims to ensure that:

- a. financial reports comply with established internal policies and procedures, pertinent accounting and audit standards and other regulatory requirements;
- b. risks are properly identified, evaluated and managed, specifically in the areas of managing credit, market, liquidity, operational, legal and other risks, and crisis management;
- c. audit activities of internal auditors are done based on plan, and deviations are explained through the performance of direct interface functions with the internal auditors; and
- d. the Group's BOD is properly assisted in the development of policies that would enhance the risk management and control systems.

### *Corporate Governance and Management Systems*

The CGMS was created to be primarily responsible for the execution of the enterprise risk management framework. The CGMS's main concerns include:

- a. recommendation of risk policies, strategies, principles, framework and limits;
- b. management of fundamental risk issues and monitoring of relevant risk decisions;
- c. support to management in implementing the risk policies and strategies; and
- d. development of a risk awareness program.

### *Corporate Governance Compliance Officer*

Compliance with the principles of good corporate governance is one of the objectives of the Group's BOD. To assist the Group's BOD in achieving this purpose, the Group's BOD has designated a Compliance Officer who shall be responsible for monitoring the actual compliance of the Group with the provisions and requirements of good corporate governance, identifying and monitoring control compliance risks, determining violations, and recommending penalties for such infringements for further review and approval of the Group's BOD, among others.

*Day-to-day risk management functions*

At the business unit or company level, the day-to-day risk management functions are handled by four different groups, namely:

1. Risk-taking Personnel. This group includes line personnel who initiate and are directly accountable for all risks taken.
2. Risk Control and Compliance. This group includes middle management personnel who perform the day-to-day compliance check to approved risk policies and risk mitigation decisions.
3. Support. This group includes back office personnel who support the line personnel.
4. Risk Management. This group pertains to the business unit's Management Committee which makes risk-mitigating decisions within the enterprise-wide risk management framework.

*Enterprise Resource Management (ERM) Framework*

The Parent Company's BOD is also responsible for establishing and maintaining a sound risk management framework and is accountable for risks taken by the Parent Company. The Parent Company's BOD also shares the responsibility with the CGMS in promoting the risk awareness program enterprise-wide.

The ERM framework revolves around the following eight interrelated risk management approaches:

1. Internal Environmental Scanning. It involves the review of the overall prevailing risk profile of the business unit to determine how risks are viewed and addressed by management. This is presented during the strategic planning, annual budgeting and mid-year performance reviews of the Group.
2. Objective Setting. The Group's BOD mandates the business unit's management to set the overall annual targets through strategic planning activities, in order to ensure that management has a process in place to set objectives which are aligned with the Group's goals.
3. Event Identification. It identifies both internal and external events affecting the Group's set targets, distinguishing between risks and opportunities.
4. Risk Assessment. The identified risks are analyzed relative to the probability and severity of potential loss which serves as a basis for determining how the risks should be managed. The risks are further assessed as to which risks are controllable and uncontrollable, risks that require management's attention, and risks which may materially weaken the Group's earnings and capital.
5. Risk Response. The Group's BOD, through the oversight role of the ERMG, approves the business unit's responses to mitigate risks, either to avoid, self-insure, reduce, transfer or share risk.
6. Control Activities. Policies and procedures are established and approved by the Group's BOD and implemented to ensure that the risk responses are effectively carried out enterprise-wide.
7. Information and Communication. Relevant risk management information are identified, captured and communicated in form and substance that enable all personnel to perform their risk management roles.
8. Monitoring. The CGMS, Internal Audit Group, Compliance Office and Business Assessment Team constantly monitor the management of risks through risk limits, audit reviews, compliance checks, revalidation of risk strategies and performance reviews.

#### *Risk management support groups*

The Group's BOD created the following departments within the Group to support the risk management activities of the Parent Company and the other business units:

1. Corporate Security and Safety Board (CSSB). Under the supervision of CGMS, the CSSB administers enterprise-wide policies affecting physical security of assets exposed to various forms of risks.
2. Corporate Supplier Accreditation Team (CORPSAT). Under the supervision of CGMS, the CORPSAT administers enterprise-wide procurement policies to ensure availability of supplies and services of high quality and standards to all business units.
3. Corporate Management Services (CMS). The CMS is responsible for the formulation of enterprise-wide policies and procedures.
4. Corporate Strategy. The Corporate Strategy is responsible for the administration of strategic planning, budgeting and performance review processes of business units.

#### Risk Management Policies

The main risks arising from the use of financial instruments are credit risk, liquidity risk and market risk, such as foreign currency risk, commodity price risk, equity price risk and interest rate risk. The Group's policies for managing the aforementioned risks are summarized below.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group transacts only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group continuously provides credit notification and implements various credit actions, depending on assessed risks, to minimize credit exposure. Receivable balances of trade customers are being monitored on a regular basis and appropriate credit treatments are executed for overdue accounts. Likewise, other receivable balances are also being monitored and subjected to appropriate actions to manage credit risk.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVTPL, financial assets at FVOCI, investment securities at amortized cost and certain derivative investments, the Group's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

The Group has a counterparty credit risk management policy which allocates investment limits based on counterparty credit ratings and credit risk profile.

With respect to the Banking Segment, there are several credit risk mitigation practices in place, as follow:

- The Banking Segment offers a variety of loan products with substantial collateral values. The policy on collateral and other credit enhancements are discussed further below.
- Limits are set on the amount of credit risk that the Banking Segment is willing to take for customers and counterparties, and exposures are monitored against such credit limits.

- The Banking Segment also observes related regulatory limits such as the single borrower's limit (SBL) and directors, officers, stockholders and related interests (DOSRI) ceiling.
- To protect against settlement risk, the Banking Segment employs a delivery-versus-payment (DvP) settlement system, wherein payment is effected only when the corresponding asset has been delivered.
- There is an internal credit risk rating system (ICRRS) in place, providing a structured format for collating and analyzing borrower data to arrive at a summary indicator of credit risk.
- Past due and non-performing loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.

a. Credit risk exposure

The Group's maximum exposure to on-balance sheet credit risk is equal to the carrying value of its financial assets except for the following accounts:

|                                   | 2019                   |                          |                                |                                 |
|-----------------------------------|------------------------|--------------------------|--------------------------------|---------------------------------|
|                                   | Carrying amount        | Fair Value of Collateral | Financial Effect of Collateral | Maximum Exposure to Credit Risk |
| Interbank loans receivable        | ₱2,408,705,460         | ₱1,603,350,278           | ₱1,603,350,278                 | ₱805,355,182                    |
| Loans and receivables:            |                        |                          |                                |                                 |
| Finance receivables:              |                        |                          |                                |                                 |
| Commercial                        | 49,105,221,842         | 13,966,555,107           | 11,818,030,519                 | 37,287,191,323                  |
| Real estate                       | 19,067,998,568         | 14,588,487,309           | 10,314,921,736                 | 8,753,076,832                   |
| Consumption                       | 10,161,292,294         | 9,716,871,923            | 5,166,992,449                  | 4,994,299,845                   |
| Other receivables                 | 13,662,275,394         | 3,071,001,245            | 2,953,779,279                  | 10,708,496,115                  |
| <b>Total credit risk exposure</b> | <b>₱94,405,493,558</b> | <b>₱42,946,265,862</b>   | <b>₱31,857,074,261</b>         | <b>₱62,548,419,297</b>          |

|                                   | 2018                   |                          |                                |                                 |
|-----------------------------------|------------------------|--------------------------|--------------------------------|---------------------------------|
|                                   | Carrying amount        | Fair Value of Collateral | Financial Effect of Collateral | Maximum Exposure to Credit Risk |
| Interbank loans receivable        | ₱2,123,675,000         | ₱2,123,675,000           | ₱2,123,675,000                 | ₱-                              |
| Loans and receivables:            |                        |                          |                                |                                 |
| Finance receivables:              |                        |                          |                                |                                 |
| Commercial                        | 43,838,017,355         | 220,667,548              | 48,478,249                     | 43,789,539,106                  |
| Real estate                       | 13,882,037,460         | 19,985,094,892           | 13,800,023,230                 | 82,014,230                      |
| Consumption                       | 7,231,736,279          | 8,129,980,920            | 5,113,241,660                  | 2,118,494,619                   |
| Other receivables                 | 12,128,501,001         | 2,821,806,322            | 2,810,163,052                  | 9,318,337,949                   |
| <b>Total credit risk exposure</b> | <b>₱79,203,967,095</b> | <b>₱33,281,224,682</b>   | <b>₱23,895,581,191</b>         | <b>₱55,308,385,904</b>          |

*Collateral and other credit enhancements*

The Group holds collateral in the form of real estate and chattel mortgages, government securities and standby letters of credit. The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Mortgages over real estate and vehicle for consumer lending
- Chattels over inventory and receivable for commercial lending
- Government securities for interbank lending

It is the Group's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

b. Risk concentrations of the maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have 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.

The Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. In order to avoid excessive concentrations of risks, identified concentrations of credit risks are controlled and managed accordingly.

i. Concentration by geographical location

The Group's credit risk exposures as of December 31, 2019 and 2018, before taking into account any collateral held or other credit enhancements, is categorized by geographic location as follows:

|   | December 31, 2019 |                                    |                  |                |                | Total            |
|---|-------------------|------------------------------------|------------------|----------------|----------------|------------------|
|   | Philippines       | Asia<br>(excluding<br>Philippines) | United<br>States | Europe         | Others*        |                  |
| Cash and cash equivalents**   | ₱40,392,933,814   | ₱18,612,975,697                    | ₱-               | ₱-             | ₱1,926,564,972 | ₱60,932,474,483  |
| Financial assets at FVPL:   |                   |                                    |                  |                |                |                  |
| Held-for-trading:   |                   |                                    |                  |                |                |                  |
| Debt securities:  |                   |                                    |                  |                |                |                  |
| Government  | 3,943,264         | -                                  | -                | -              | -              | 3,943,264        |
| Investment in convertible notes   | -                 | 135,257,546                        | 2,525,914,569    | -              | -              | 2,661,172,115    |
| Derivative assets   | -                 | -                                  | -                | -              | 992,618        | 992,618          |
|   | 3,943,264         | 135,257,546                        | 2,525,914,569    | -              | 992,618        | 2,666,107,997    |
| Financial assets at FVOCI   |                   |                                    |                  |                |                |                  |
| Debt securities:  |                   |                                    |                  |                |                |                  |
| Government  | 8,557,069,472     | 533,085,422                        | -                | -              | 302,652,089    | 9,392,806,983    |
| Private   | 7,914,619,578     | 2,216,841,137                      | 412,067,883      | 1,114,327,255  | 244,512,384    | 11,902,368,237   |
|   | 16,471,689,050    | 2,749,926,559                      | 412,067,883      | 1,114,327,255  | 547,164,473    | 21,295,175,220   |
| Investment securities at amortized cost:  |                   |                                    |                  |                |                |                  |
| Debt securities:  |                   |                                    |                  |                |                |                  |
| Government  | 9,356,915,213     | -                                  | -                | -              | -              | 9,356,915,213    |
| Private   | 2,000,346,028     | -                                  | -                | -              | -              | 2,000,346,028    |
|   | 11,357,261,241    | -                                  | -                | -              | -              | 11,357,261,241   |
| Receivables:  |                   |                                    |                  |                |                |                  |
| Finance receivables   | 78,822,852,386    | -                                  | -                | -              | -              | 78,822,852,386   |
| Trade receivables   | 15,695,185,756    | 3,185,020,020                      | 14,326,882       | 7,292,674      | 2,931,606,998  | 21,833,432,330   |
| Due from related parties  | 1,930,866,127     | 616,848,658                        | -                | -              | -              | 2,547,714,785    |
| Interest receivable   | 1,021,865,234     | 62,250,924                         | 76,588,422       | 12,517,056     | 6,907,919      | 1,180,129,555    |
| Other receivables***  | 3,724,785,612     | 100,203,277                        | -                | 100,475,902    | 80,896,862     | 4,006,361,653    |
|   | 101,195,555,115   | 3,964,322,879                      | 90,915,304       | 120,285,632    | 3,019,411,779  | 108,390,490,709  |
| Refundable security deposits<br>(included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) | 817,115,232       | 181,057,483                        | -                | -              | -              | 998,172,715      |
|   | ₱170,238,497,716  | ₱25,643,540,164                    | ₱3,028,897,756   | ₱1,234,612,887 | ₱5,494,133,842 | ₱205,639,682,365 |

\* Others include South American countries (i.e., Argentina and Mexico), New Zealand and Australia

\*\* Excludes cash on hand amounting to ₱3,410,774,679

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱265,769,076

December 31, 2018

|   | Philippines      | Asia<br>(excluding<br>Philippines) | United<br>States | Europe         | Others*        | Total            |
|---|------------------|------------------------------------|------------------|----------------|----------------|------------------|
| Cash and cash equivalents**   | ₱38,852,897,061  | ₱5,307,185,058                     | ₱-               | ₱250,044,195   | ₱2,255,507,539 | ₱46,665,633,853  |
| Financial assets at FVPL:   |                  |                                    |                  |                |                |                  |
| Held-for-trading:   |                  |                                    |                  |                |                |                  |
| Debt securities:  |                  |                                    |                  |                |                |                  |
| Government  | 8,206,143        | -                                  | -                | -              | -              | 8,206,143        |
| Investment in convertible notes   | -                | 1,806,085,829                      | -                | -              | -              | 1,806,085,829    |
|   | 8,206,143        | 1,806,085,829                      | -                | -              | -              | 1,814,291,972    |
| Derivative assets:  |                  |                                    |                  |                |                |                  |
| Designated as accounting hedges   | -                | -                                  | -                | -              | 6,389,048      | 6,389,048        |
|   | -                | -                                  | -                | -              | 6,389,048      | 6,389,048        |
| Financial assets at FVOCI   |                  |                                    |                  |                |                |                  |
| Debt securities:  |                  |                                    |                  |                |                |                  |
| Government  | 7,567,173,337    | 2,706,138,184                      | -                | -              | -              | 10,273,311,521   |
| Private   | 7,251,421,434    | 2,670,734,213                      | 1,334,309,226    | 1,663,733,566  | 44,460,919     | 12,964,659,358   |
|   | 14,818,594,771   | 5,376,872,397                      | 1,334,309,226    | 1,663,733,566  | 44,460,919     | 23,237,970,879   |
| Investment securities at amortized cost:  |                  |                                    |                  |                |                |                  |
| Debt securities:  |                  |                                    |                  |                |                |                  |
| Government  | 9,290,428,591    | 1,232,898,193                      | -                | -              | -              | 10,523,326,784   |
| Private   | 1,937,862,238    | 101,335,974                        | -                | 34,564,721     | -              | 2,073,762,933    |
|   | 11,228,290,829   | 1,334,234,167                      | -                | 34,564,721     | -              | 12,597,089,717   |
| Receivables:  |                  |                                    |                  |                |                |                  |
| Finance receivables   | 66,897,077,529   | -                                  | -                | -              | -              | 66,897,077,529   |
| Trade receivables   | 13,881,964,250   | 3,681,875,425                      | 367,769,745      | 173,038,197    | 2,895,514,716  | 21,000,162,333   |
| Due from related parties  | 957,644,153      | 616,848,658                        | -                | -              | -              | 1,574,492,811    |
| Interest receivable   | 926,083,274      | 44,724,170                         | 12,592,656       | 21,795,521     | 101,216        | 1,005,296,837    |
| Other receivables***  | 2,344,453,411    | 242,588,179                        | -                | 1,127,248      | 34,186,060     | 2,622,354,898    |
|   | 85,007,222,617   | 4,586,036,432                      | 380,362,401      | 195,960,966    | 2,929,801,992  | 93,099,384,408   |
| Refundable security deposits<br>(included under 'Other current' and 'Other noncurrent assets' in the consolidated statements of financial position) | 811,586,864      | 203,244,020                        | -                | -              | -              | 1,014,830,884    |
|   | ₱150,726,798,285 | ₱18,613,657,903                    | ₱1,714,671,627   | ₱2,144,303,448 | ₱5,236,159,498 | ₱178,435,590,761 |

\* Others include South American countries (i.e., Argentina and Mexico), New Zealand and Australia

\*\* Excludes cash on hand amounting to ₱2,529,042,588

\*\*\* Excludes claims receivable of JGSPC and JGSOC amounting to ₱457,257,191



2018

|   | Manufacturing   | Real Estate,<br>Renting and<br>Related Business<br>Activities | Wholesale<br>and<br>Retail Trade | Financial<br>Intermediaries | Transportation,<br>Storage and<br>Communication | Agricultural,<br>Hunting and<br>Forestry | Electricity,<br>Gas and Water | Construction   | Public<br>Administration | Others*         | Total            |
|---|-----------------|---|----------------------------------|-----------------------------|---|--|-------------------------------|----------------|--------------------------|-----------------|------------------|
|   | P-              | P-  | P-                               | P-                          | P-  | P-                                       | P-                            | P-             | P-                       | P-              | P-               |
| Cash and cash equivalents**   |                 |   |                                  |                             |   |  |                               |                |                          |                 | ₱46,665,633,853  |
| Financial assets at FVPL:   |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Held-for-trading:   |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Debt securities:  |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Government  | -               | -   | -                                | -                           | -   | -  | -                             | -              | 8,206,143                | -               | 8,206,143        |
| Investment in convertible notes   | -               | -   | -                                | 93,122,837                  | 1,665,756,475                                   | -  | -                             | -              | -                        | 47,206,517      | 1,806,085,829    |
|   | -               | -   | -                                | 93,122,837                  | 1,665,756,475                                   | -  | -                             | -              | 8,206,143                | 47,206,517      | 1,814,291,972    |
| Derivative financial assets:  |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Designated as an accounting hedge   | 6,389,048       | -   | -                                | -                           | -   | -  | -                             | -              | -                        | -               | 6,389,048        |
|   | 6,389,048       | -   | -                                | -                           | -   | -  | -                             | -              | -                        | -               | 6,389,048        |
| Financial assets at FVOCI   |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Debt securities:  |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Government  | -               | -   | -                                | 130,987,296                 | -   | -  | -                             | -              | 7,268,522,839            | 2,873,801,386   | 10,273,311,521   |
| Private   | 157,277,296     | 6,168,357,346   | -                                | 2,057,046,706               | 428,127,918                                     | -  | 1,470,349,155                 | -              | -                        | 2,683,500,937   | 12,964,659,358   |
|   | 157,277,296     | 6,168,357,346   | -                                | 2,188,034,002               | 428,127,918                                     | -  | 1,470,349,155                 | -              | 7,268,522,839            | 5,557,302,323   | 23,237,970,879   |
| Investment securities at amortized cost   |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Debt securities:  |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Government  | -               | -   | -                                | -                           | -   | -  | -                             | -              | 10,523,326,784           | -               | 10,523,326,784   |
| Private   | -               | 2,073,762,933   | -                                | -                           | -   | -  | -                             | -              | -                        | -               | 2,073,762,933    |
|   | -               | 2,073,762,933   | -                                | -                           | -   | -  | -                             | -              | 10,523,326,784           | -               | 12,597,089,717   |
| Receivables:  |                 |   |                                  |                             |   |  |                               |                |                          |                 |                  |
| Finance receivables   | 7,039,016,469   | 17,861,994,049  | 9,825,206,920                    | 3,596,048,985               | 5,591,120,738                                   | 826,517,599                              | 7,130,295,735                 | 1,121,392,388  | 54,595,695               | 13,850,888,951  | 66,897,077,529   |
| Trade receivables   | 15,716,636,572  | 3,086,884,922   | -                                | -                           | 2,102,234,497                                   | -  | -                             | -              | -                        | 94,406,342      | 21,000,162,333   |
| Due from related parties  | 44,910,646      | 203,563,354   | -                                | 256,984,564                 | 371,577,340                                     | -  | -                             | -              | -                        | 697,456,907     | 1,574,492,811    |
| Interest receivable   | 2,765,235       | 7,046,218   | -                                | 887,566,554                 | 6,619,282                                       | -  | 15,071,384                    | -              | -                        | 86,228,164      | 1,005,296,837    |
| Other receivables***  | 1,010,424,891   | 264,589,538   | -                                | -                           | 131,058,080                                     | -  | -                             | -              | -                        | 1,216,282,389   | 2,622,354,898    |
|   | 23,813,753,813  | 21,424,078,081  | 9,825,206,920                    | 4,740,600,103               | 8,202,609,937                                   | 826,517,599                              | 7,145,367,119                 | 1,121,392,388  | 54,595,695               | 15,945,262,753  | 93,099,384,408   |
| Refundable security deposits (included under<br>'Other current' and 'Other noncurrent assets'<br>in the consolidated statements of financial<br>position) | 4,091,266       | 800,012,050   | -                                | -                           | 203,244,020                                     | -  | -                             | -              | -                        | 7,483,548       | 1,014,830,884    |
|   | ₱23,981,511,423 | ₱30,466,210,410   | ₱9,825,206,920                   | ₱37,491,063,577             | ₱10,499,738,350                                 | ₱826,517,599                             | ₱8,615,716,274                | ₱1,121,392,388 | ₱34,050,978,679          | ₱21,557,255,141 | ₱178,435,590,761 |

\* Others include consumer, community, social and personal services, education, mining and quarrying, and health and social work sectors.

\*\* Excludes cash on hand amounting to ₱2,529,042,588

\*\*\* Excludes claims receivable of JGSOC and JGSOC amounting to ₱457,257,191

c. Credit quality per class of financial assets

The table below shows the maximum exposure to credit risk for the Group's financial assets not measured at fair value by credit rating grades:

|  | 2019 (in millions)          |                             |                             | Simplified Approach | Total   |
|--|-----------------------------|-----------------------------|-----------------------------|---------------------|---------|
|  | General Approach<br>Stage 1 | General Approach<br>Stage 2 | General Approach<br>Stage 3 |                     |         |
| <b>Cash and cash equivalents</b>               |                             |                             |                             |                     |         |
| Neither Past Due nor Individually Impaired     |                             |                             |                             |                     |         |
| High Grade                                     | ₱43,844                     | ₱-                          | ₱-                          | ₱-                  | ₱43,844 |
| Standard                                       | 17,088                      | -                           | -                           | -                   | 17,088  |
| <b>Financial Assets at FVPL</b>                |                             |                             |                             |                     |         |
| Debt securities                                |                             |                             |                             |                     |         |
| High Grade                                     | 4                           | -                           | -                           | -                   | 4       |
| Investment in convertible note                 |                             |                             |                             |                     |         |
| Unrated  | 2,661                       | -                           | -                           | -                   | 2,661   |
| Derivative assets                              |                             |                             |                             |                     |         |
| High Grade                                     | 1                           | -                           | -                           | -                   | 1       |
| <b>Financial Assets at FVOCI</b>               |                             |                             |                             |                     |         |
| Neither Past Due nor Individually Impaired     |                             |                             |                             |                     |         |
| High Grade                                     | 7,530                       | -                           | -                           | -                   | 7,530   |
| Standard                                       | 13,765                      | -                           | -                           | -                   | 13,765  |
| <b>Investment securities at Amortized Cost</b> |                             |                             |                             |                     |         |
| Neither Past Due nor Individually Impaired     |                             |                             |                             |                     |         |
| Standard                                       | 11,357                      | -                           | -                           | -                   | 11,357  |
| <b>Receivables</b>                             |                             |                             |                             |                     |         |
| Finance receivables                            |                             |                             |                             |                     |         |
| Neither Past Due nor Individually Impaired     |                             |                             |                             |                     |         |
| High Grade                                     | 18,942                      | 5                           | -                           | -                   | 18,947  |
| Standard                                       | 42,232                      | 2,585                       | -                           | -                   | 44,817  |
| Substandard                                    | 420                         | 4,920                       | 1                           | -                   | 5,341   |
| Unrated  | 24                          | 294                         | 8,089                       | -                   | 8,407   |
| Past Due but not Individually Impaired         | 40                          | 1,350                       | 860                         | -                   | 2,250   |
| Individually Impaired                          | 6                           | 6                           | 392                         | -                   | 404     |
| Trade receivables                              |                             |                             |                             |                     |         |
| Neither Past Due nor Individually Impaired     |                             |                             |                             |                     |         |
| High Grade                                     | -                           | -                           | -                           | 17,440              | 17,440  |
| Standard                                       | -                           | -                           | -                           | 377                 | 377     |
| Past Due but not Individually Impaired         | -                           | -                           | -                           | 4,016               | 4,016   |
| Individually Impaired                          | -                           | -                           | -                           | 199                 | 199     |
| Due from related parties                       |                             |                             |                             |                     |         |
| Neither Past Due nor Individually Impaired     |                             |                             |                             |                     |         |
| High Grade                                     | -                           | -                           | -                           | 2,091               | 2,091   |
| Standard                                       | -                           | -                           | -                           | 457                 | 457     |
| Interest receivable                            |                             |                             |                             |                     |         |
| Neither Past Due nor Individually Impaired     |                             |                             |                             |                     |         |
| High Grade                                     | 195                         | -                           | -                           | 229                 | 424     |
| Standard                                       | 394                         | 28                          | -                           | -                   | 422     |
| Substandard                                    | 2                           | 26                          | -                           | -                   | 28      |
| Unrated  | 78                          | 1                           | 26                          | -                   | 105     |

(Forward)

|  | 2019 (in millions) |               |               |                     |                 |
|--|--------------------|---------------|---------------|---------------------|-----------------|
|  | General Approach   |               |               | Simplified Approach | Total           |
|  | Stage 1            | Stage 2       | Stage 3       |                     |                 |
| Past Due but not Individually Impaired     | ₱78                | ₱39           | ₱66           | ₱1                  | ₱184            |
| Individually Impaired                      | –                  | –             | 19            | –                   | 19              |
| Other receivables                          |                    |               |               |                     |                 |
| Neither Past Due nor Individually Impaired |                    |               |               |                     |                 |
| High Grade                                 | 304                | –             | –             | 1,574               | 1,878           |
| Standard                                   | 4                  | –             | –             | 810                 | 814             |
| Substandard                                | 6                  | –             | –             | 30                  | 36              |
| Unrated                                    | 16                 | 2             | 3             | –                   | 21              |
| Past Due but not Individually Impaired     | 827                | 2             | 17            | 488                 | 1334            |
| Individually Impaired                      | 15                 | –             | 43            | 311                 | 369             |
| <b>Refundable security deposits</b>        |                    |               |               |                     |                 |
| Neither Past Due nor Individually Impaired |                    |               |               |                     |                 |
| High Grade                                 | 934                | –             | –             | –                   | 934             |
| Standard                                   | 64                 | –             | –             | –                   | 64              |
|  | <b>₱160,831</b>    | <b>₱9,258</b> | <b>₱9,516</b> | <b>₱28,023</b>      | <b>₱207,628</b> |

|  | 2018 (in millions) |         |         |                     |         |
|--|--------------------|---------|---------|---------------------|---------|
|  | General Approach   |         |         | Simplified Approach | Total   |
|  | Stage 1            | Stage 2 | Stage 3 |                     |         |
| <b>Cash and cash equivalents</b>                           |                    |         |         |                     |         |
| Neither Past Due nor Individually Impaired                 |                    |         |         |                     |         |
| High Grade   | ₱25,358            | ₱–      | ₱–      | ₱–                  | ₱25,358 |
| Standard   | 21,308             | –       | –       | –                   | 21,308  |
| <b>Financial Assets at FVPL</b>                            |                    |         |         |                     |         |
| Debt securities  |                    |         |         |                     |         |
| High Grade   | 8                  | –       | –       | –                   | 8       |
| Investment in convertible note                             |                    |         |         |                     |         |
| Unrated  | 1,806              | –       | –       | –                   | 1,806   |
| Derivative financial assets designated as accounting hedge |                    |         |         |                     |         |
| High Grade   | 6                  | –       | –       | –                   | 6       |
| <b>Financial Assets at FVOCI</b>                           |                    |         |         |                     |         |
| Neither Past Due nor Individually Impaired                 |                    |         |         |                     |         |
| High Grade   | 10,322             | –       | –       | –                   | 10,322  |
| Standard   | 12,916             | –       | –       | –                   | 12,916  |
| <b>Investment securities at Amortized Cost</b>             |                    |         |         |                     |         |
| Neither Past Due nor Individually Impaired                 |                    |         |         |                     |         |
| Standard   | 12,597             | –       | –       | –                   | 12,597  |
| <b>Receivables</b>   |                    |         |         |                     |         |
| Finance receivables  |                    |         |         |                     |         |
| Neither Past Due nor Individually Impaired                 |                    |         |         |                     |         |
| High Grade   | 22,947             | –       | –       | –                   | 22,947  |
| Standard   | 32,524             | –       | –       | –                   | 32,524  |
| Substandard  | –                  | 4,056   | –       | –                   | 4,056   |
| Unrated  | 96                 | 52      | 6,799   | –                   | 6,947   |
| Past Due but not Individually Impaired                     | 17                 | 749     | 431     | –                   | 1,197   |
| Individually Impaired                                      | 20                 | –       | 588     | –                   | 608     |
| Trade receivables  |                    |         |         |                     |         |
| Neither Past Due nor Individually Impaired                 |                    |         |         |                     |         |
| High Grade   | –                  | –       | –       | 15,326              | 15,326  |

(Forward)

|  | 2018 (in millions) |         |         |                     |          |  |
|--|--------------------|---------|---------|---------------------|----------|--|
|  | General Approach   |         |         | Simplified Approach | Total    |  |
|  | Stage 1            | Stage 2 | Stage 3 |                     |          |  |
| Past Due but not Individually Impaired     | ₱-                 | ₱-      | ₱-      | ₱5,674              | ₱5,674   |  |
| Individually Impaired                      | -                  | -       | -       | 279                 | 279      |  |
| Due from related parties                   |                    |         |         |                     |          |  |
| Neither Past Due nor Individually Impaired |                    |         |         |                     |          |  |
| High Grade                                 | -                  | -       | -       | 957                 | 957      |  |
| Standard                                   | -                  | -       | -       | 618                 | 618      |  |
| Interest receivable                        |                    |         |         |                     |          |  |
| Neither Past Due nor Individually Impaired |                    |         |         |                     |          |  |
| High Grade                                 | 209                | -       | -       | 182                 | 391      |  |
| Standard                                   | 382                | 27      | -       | -                   | 409      |  |
| Substandard                                | 2                  | 25      | -       | -                   | 27       |  |
| Unrated                                    | 61                 | 1       | 20      | -                   | 82       |  |
| Past Due but not Individually Impaired     |                    |         |         |                     |          |  |
| Individually Impaired                      | 33                 | 16      | 28      | -                   | 77       |  |
| Other receivables                          |                    |         |         |                     |          |  |
| Neither Past Due nor Individually Impaired |                    |         |         |                     |          |  |
| High Grade                                 | 17                 | -       | -       | 821                 | 838      |  |
| Standard                                   | 716                | -       | -       | 404                 | 1,120    |  |
| Substandard                                | 50                 | -       | -       | 37                  | 87       |  |
| Unrated                                    | 9                  | 1       | 2       | -                   | 12       |  |
| Past Due but not Individually Impaired     |                    |         |         |                     |          |  |
| Individually Impaired                      | 98                 | -       | 2       | 519                 | 619      |  |
| Refundable security deposits               |                    |         |         |                     |          |  |
| Neither Past Due nor Individually Impaired |                    |         |         |                     |          |  |
| High Grade                                 | 1,003              | -       | -       | -                   | 1,003    |  |
| Standard                                   | 8                  | -       | -       | -                   | 8        |  |
| Past Due but not Individually Impaired     |                    |         |         |                     |          |  |
| Individually Impaired                      | -                  | 4       | -       | -                   | 4        |  |
|  | ₱142,536           | ₱4,931  | ₱7,954  | ₱25,026             | ₱180,447 |  |

*Classification of Financial Assets by Class used by the Group except for the Banking Segment*

High grade cash and cash equivalents are short-term placements and working cash fund placed, invested, or deposited in foreign and local banks belonging to the top 10 banks in the Philippines in terms of resources and profitability.

Other high grade accounts are considered to be of high value since the counterparties have a remote likelihood of default and have consistently exhibited good paying habits.

Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

Substandard grade accounts are accounts which have probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow-up actions and extended payment terms.

*Classification of Financial Assets by Class used by the Banking Segment*

For loans and receivables from customers, the Banking Segment's internal credit risk rating (ICCR) system was approved in 2007 and further enhanced to reflect latest updates. Last enhancement was made in 2017 for the ICRRS covering corporate credit exposures as defined by BSP Circular 439, initially for those borrowers with asset size of more than ₱15.0 million. In compliance with BSP

Circular 855, the Banking Segment also developed another ICRRS in 2016 for those borrowers with asset size of ₱15.0 million and below which was also enhanced in 2018.

The Banking Segment's internal credit risk rating is as follows:

| <b>Grades</b>             | <b>Categories</b> | <b>Description</b>   |
|---------------------------|-------------------|--|
| <b>High grade</b>         |                   |  |
| <i>Risk rating 1</i>      | Excellent         | Lowest probability of default; exceptionally strong capacity for financial commitments; highly unlikely to be adversely affected by foreseeable events.  |
| <i>Risk rating 2</i>      | Super Prime       | Very low probability of default; very strong capacity for payment of financial commitments; less vulnerable to foreseeable events.   |
| <i>Risk rating 3</i>      | Prime             | Low probability of default; strong capacity for payment of financial commitments; may be more vulnerable to adverse business / economic conditions.  |
| <i>Risk rating 4</i>      | Very Good         | Moderately low probability of default; more than adequate capacity for payment of financial commitments; but adverse business/economic conditions are more likely to impair this capacity.   |
| <i>Risk rating 5</i>      | Good              | More pronounced probability of default; business or financial flexibility exists which supports the servicing of financial commitments; vulnerable to adverse business/economic changes.   |
| <b>Standard</b>           |                   |  |
| <i>Risk rating 6</i>      | Satisfactory      | Material probability of default is present, but a margin of safety remains; financial commitments are currently being met although the capacity for continued payment is vulnerable to deterioration in the business/economic condition.                         |
| <i>Risk rating 7</i>      | Average           | Greater probability of default which is reflected in the volatility of earnings and overall performance; repayment source is presently adequate; however, prolonged unfavorable economic period would create deterioration beyond acceptable levels.             |
| <i>Risk rating 8</i>      | Fair              | Sufficiently pronounced probability of default, although borrowers should still be able to withstand normal business cycles; any prolonged unfavorable economic/market conditions would create an immediate deterioration of cash flow beyond acceptable levels. |
| <b>Sub-standard grade</b> |                   |  |
| <i>Risk rating 9</i>      | Marginal          | Elevated level of probability of default, with limited margin; repayment source is adequate to marginal.   |
| <i>Risk rating 10</i>     | Watch list        | Unfavorable industry or company specific risk factors represent a concern, financial strength may be marginal; will find it difficult to cope with significant downturn.   |

| <b>Grades</b>         | <b>Categories</b> | <b>Description</b>   |
|-----------------------|-------------------|--|
| <i>Risk rating 11</i> | Special mention   | Loans have potential weaknesses that deserve close attention; borrower has reached a point where there is a real risk that the borrower's ability to pay the interest and repay the principal timely could be jeopardized due to evidence of weakness in the borrower's financial condition. |
| <i>Risk rating 12</i> | Substandard       | Substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics; with well-defined weaknesses that jeopardize their liquidation e.g. negative cash flow, case of fraud.   |
| Past due and impaired |                   |  |
| <i>Risk rating 13</i> | Doubtful          | Weaknesses similar to "Substandard", but with added characteristics that make liquidation highly improbable.   |
| <i>Risk rating 14</i> | Loss              | Uncollectible or worthless.  |

The Banking Segment's internal credit risk rating system intends to provide a structure to define the corporate credit portfolio, and consists of an initial rating for the borrower risk later adjusted for the facility risk. Inputs include an assessment of management, credit experience, financial condition, industry outlook, documentation, security and term.

Below is the staging parameters adopted by the Banking Segment effective January 1, 2018 in relation to its PFRS 9 adoption.

| <b>Staging Parameter</b>                        | <b>Stage</b> | <b>Description</b>  |
|---|--------------|---|
| Staging by Days Past Due                        | 1            | <i>Applicable to all loan products</i><br>Accounts with 0 - 30 days past due (applicable for all loan products except for microfinancing loans wherein days past due for Stage 1 accounts is 0 - 6 days).   |
|   | 2            | Accounts with 31 - 90 days past due (applicable for all loan products except for microfinancing loans wherein days past due for Stage 2 accounts is 7 - 10 days).   |
|   | 3            | Accounts with days past due of 91 days and above (applicable for all loan products except for microfinancing loans wherein days past due for Stage 3 accounts is 11 days and above).  |
| Staging by Status                               | 1            | Accounts tagged as Current in its Status are classified under Stage 1.  |
|   | 3            | Accounts tagged as ITL in its Status are classified under Stage 3.  |
| Staging by Origination Rating vs Current Rating | 1            | <i>Applicable to Commercial Loans (Large Scale and Medium Scale) only</i><br>If no movement in the ratings from origination rating against the latest rating, the staging will be based on the current ICRRS rating. If the account's current rating is either Excellent, Super |

| <b>Staging Parameter</b> | <b>Stage</b> | <b>Description</b>   |
|--------------------------|--------------|--|
|                          |              | Prime, Prime, Very Good, Good, Satisfactory, Average, Fair, the account will be tagged under Stage 1.  |
|                          | 2            | If the account's current rating/equivalent Risk Level deteriorates by 2 notches from its origination rating/equivalent Risk Level, the account is tagged under Stage 2. If no movement in the ratings from origination rating against the latest rating, the staging will be based on the latest ICRRS rating. If the account's latest Rating is either Marginal, Watchlist or Especially Mentioned, account will be tagged under Stage 2. |

Staging by Maturity Date vs  
Cut-off Date

*Applicable to all loan products*

- |   |   |
|---|---|
| 1 | If maturity date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cutoff date from the maturity date is less than 30 days, the account is tagged under Stage 1 (For Microfinance loans, if maturity date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cutoff date from the maturity date is less than 10 days, the account is tagged under Stage 1).      |
| 3 | If maturity date of the account is prior to the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 30 days, the account is tagged under Stage 3 (For Microfinance loans, if Maturity Date of the account is prior the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 10 days, the account is tagged under Stage 3). |

#### *External ratings*

In ensuring a quality investment portfolio, the Group monitors credit risk from investments using credit ratings based on Standard and Poor (S&P). Credit quality of due from BSP and other banks and interbank loans receivable are based on available accredited international and local credit raters using Fitch as standard of rating.

The Group assigns the following credit quality groupings based on ratings prior to PFRS 9 adoption as follows:

| <b>Credit Quality</b> | <b>Fitch</b> | <b>Moody's</b> | <b>S&amp;P</b> | <b>Stage*</b> |
|-----------------------|--------------|----------------|----------------|---------------|
| High Grade            | AAA to A-    | Aaa to A3      | AAA to A-      | 1             |
| Standard Grade        | BBB+ to BB-  | Baa1 to Ba3    | BBB+ to BB-    | 1             |
| Substandard Grade     | B+ to C-     | B1 to Ca       | B+ to C-       | 2             |
| Past due and impaired | D            | C              | D              | 3             |

*\*Applicable to Banking Segment only.*

d. Aging analysis of receivables by class

The aging analysis of the Group's Past Due but Not Impaired receivables as of December 31, 2019 and 2018 follow:

|                     | 2019 (in millions)   |                  |                  |                 | Total         |
|---------------------|----------------------|------------------|------------------|-----------------|---------------|
|                     | Less than<br>30 Days | 30 to 60<br>Days | 61 to 90<br>Days | Over 90<br>Days |               |
| Finance receivables | ₱34                  | ₱937             | ₱414             | ₱865            | ₱2,250        |
| Trade receivables   | 2,113                | 773              | 263              | 867             | 4,016         |
| Interest receivable | 65                   | 35               | 16               | 68              | 184           |
| Others              | 829                  | 47               | 129              | 329             | 1,334         |
|                     | <b>₱3,041</b>        | <b>₱1,792</b>    | <b>₱822</b>      | <b>₱2,129</b>   | <b>₱7,784</b> |

|                     | 2018 (in millions)   |                  |                  |                 | Total         |
|---------------------|----------------------|------------------|------------------|-----------------|---------------|
|                     | Less than<br>30 Days | 30 to 60<br>Days | 61 to 90<br>Days | Over 90<br>Days |               |
| Finance receivables | ₱298                 | ₱88              | ₱241             | ₱570            | ₱1,197        |
| Trade receivables   | 4,334                | 537              | 133              | 670             | 5,674         |
| Interest receivable | 37                   | 15               | 10               | 15              | 77            |
| Others              | 273                  | 19               | 43               | 284             | 619           |
|                     | <b>₱4,942</b>        | <b>₱ 659</b>     | <b>₱427</b>      | <b>₱1,539</b>   | <b>₱7,567</b> |

*Liquidity risk*

Liquidity risk is the risk of not being able to meet funding obligations such as the repayment of liabilities or payment of asset purchases as they fall due. The Group's liquidity management involves maintaining funding capacity to finance capital expenditures and service maturing debts, and to accommodate any fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group maintains a level of cash and cash equivalents deemed sufficient to finance its operations. As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund-raising activities. Fund-raising activities may include obtaining bank loans and capital market issues both onshore and offshore.

With respect to the Banking Segment, liquidity risk is considered in assets and liabilities management. The Banking Segment seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market. The Assets and Liabilities Committee (ALCO) is composed of some members of the Senior Management including the Lending Groups and Treasury Group Heads. ALCO conducts weekly meetings. The Banking Segment also has specialized units that help monitor market and regulatory developments pertinent to interest rates and liquidity position, as well as prepare cash position reports as needed to measure the liquidity and reserves position of the Banking Segment.

The Banking Segment also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Banking Segment, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

The liquidity or maturity gap report is another tool for measuring liquidity risk. Although available contractual maturity dates are generally used for putting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Banking Segment's net excess funds

for the time band. A negative liquidity gap is an estimate of a future funding requirement of the Banking Segment. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to one (1) year.

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on the applicable undiscounted contractual payments as of December 31, 2019 and 2018:

|  | 2019            |                 |                 |                 |                   | Total            |
|--|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|
|  | On Demand       | Up to 3 Months  | 3 to 12 Months  | 1 to 5 Years    | More Than 5 Years |                  |
| <b>Financial Assets</b>                  |                 |                 |                 |                 |                   |                  |
| Cash and cash equivalents                | ₱42,522,355,730 | ₱21,820,893,432 | ₱-              | ₱-              | ₱-                | ₱64,343,249,162  |
| Financial assets at FVPL:                |                 |                 |                 |                 |                   |                  |
| Held-for-trading:                        |                 |                 |                 |                 |                   |                  |
| Debt securities:                         |                 |                 |                 |                 |                   |                  |
| Government                               | -               | 3,943,264       | -               | -               | -                 | 3,943,264        |
| Equity securities:                       |                 |                 |                 |                 |                   |                  |
| Quoted                                   | 528,355,475     | -               | 1,190,181,498   | -               | -                 | 1,718,536,973    |
| Investment in convertible note           | 45,460,289      | -               | 2,615,711,826   | -               | -                 | 2,661,172,115    |
| Derivative financial assets              | -               | -               | -               | -               | 992,618           | 992,618          |
|  | 573,815,764     | 3,943,264       | 3,805,893,324   | -               | 992,618           | 4,384,644,970    |
| Financial assets at FVOCI:               |                 |                 |                 |                 |                   |                  |
| Debt securities:                         |                 |                 |                 |                 |                   |                  |
| Private                                  | -               | 6,675,856,535   | 6,632,403,950   | 141,485,426     | -                 | 13,449,745,911   |
| Government                               | -               | -               | 971,692,486     | 4,358,709,309   | 6,500,681,132     | 11,831,082,927   |
|  | -               | 6,675,856,535   | 7,604,096,436   | 4,500,194,735   | 6,500,681,132     | 25,280,828,838   |
| Equity securities:                       |                 |                 |                 |                 |                   |                  |
| Quoted                                   | -               | -               | 477,659,667     | 24,050,346,528  | -                 | 24,528,006,195   |
| Unquoted                                 | -               | -               | 487,055,158     | -               | -                 | 487,055,158      |
|  | -               | -               | 964,714,825     | 24,050,346,528  | -                 | 25,015,061,353   |
|  | -               | 6,675,856,535   | 8,568,811,261   | 28,550,541,263  | 6,500,681,132     | 50,295,890,191   |
| Investment securities at amortized cost: |                 |                 |                 |                 |                   |                  |
| Debt securities:                         |                 |                 |                 |                 |                   |                  |
| Government                               | -               | -               | -               | 5,592,739,113   | 6,271,641,421     | 11,864,380,534   |
| Private                                  | -               | 232,049,978     | 445,235,627     | 1,859,112,977   | -                 | 2,536,398,582    |
|  | -               | 232,049,978     | 445,235,627     | 7,451,852,090   | 6,271,641,421     | 14,400,779,116   |
| Receivables:                             |                 |                 |                 |                 |                   |                  |
| Trade receivables                        | 1,783,241,782   | 17,519,794,094  | 381,755,626     | 824,696,821     | 1,522,665,241     | 22,032,153,564   |
| Finance receivables                      | 62,671,515      | 17,505,428,832  | 13,005,844,587  | 33,023,966,598  | 25,239,666,935    | 88,837,578,467   |
| Due from related parties                 | 1,217,714,785   | -               | -               | 1,330,000,000   | -                 | 2,547,714,785    |
| Interest receivable                      | 29,839,278      | 1,001,310,207   | 148,980,069     | -               | -                 | 1,180,129,554    |
| Other receivables                        | 718,832,255     | 3,616,614,779   | 117,526,329     | -               | -                 | 4,452,973,363    |
|  | 3,812,299,615   | 39,643,147,912  | 13,654,106,611  | 35,178,663,419  | 26,762,332,176    | 119,050,549,733  |
| Refundable security deposits             | 8,602,019       | 729,686         | 3,677,942       | 526,479,521     | 458,683,547       | 998,172,715      |
|  | ₱46,917,073,128 | ₱68,376,620,807 | ₱26,477,724,765 | ₱71,707,536,293 | ₱39,994,330,894   | ₱253,473,285,887 |

|   | 2019            |                  |                 |                  |                   | Total            |
|---|-----------------|------------------|-----------------|------------------|-------------------|------------------|
|   | On Demand       | Up to 3 Months   | 4 to 12 Months  | 1 to 5 Years     | More Than 5 Years |                  |
| <b>Financial Liabilities</b>  |                 |                  |                 |                  |                   |                  |
| Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties') | ₱28,968,671,174 | ₱21,403,027,473  | ₱8,343,107,934  | ₱2,101,793,041   | ₱2,113,477,833    | ₱62,930,077,455  |
| Short-term debt   | -               | 45,096,301,236   | 9,035,787,121   | -                | -                 | 54,132,088,357   |
| Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)  | 36,147,499,220  | 42,169,130,854   | 6,161,174,852   | 22,143,516,512   | 3,006,821         | 106,624,328,259  |
| Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | 114,835,410     | -                | -               | -                | -                 | 114,835,410      |
| Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | -               | 1,432,862,955    | 1,495,736,314   | 1,764,874,057    | 1,406,670,869     | 6,100,144,195    |
| Long-term debt (including current portion)  | -               | 1,970,653,285    | 4,778,823,378   | 179,026,630,295  | 54,956,806,354    | 240,732,913,312  |
| Lease liabilities (including current portion)   | 146,638,963     | 1,238,007,058    | 4,784,042,167   | 7,600,538,187    | 9,257,140,388     | 23,026,366,763   |
| Derivative liabilities  | -               | 462,908          | 305,835,400     | 126,312,502      | -                 | 432,610,810      |
|   | ₱65,377,644,767 | ₱113,310,445,769 | ₱34,904,507,166 | ₱212,763,664,594 | ₱67,737,102,265   | ₱494,093,364,561 |

|   | 2018            |                 |                 |                 |                   |                  |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|
|   | On Demand       | Up to 3 Months  | 3 to 12 Months  | 1 to 5 Years    | More Than 5 Years | Total            |
| <b>Financial Assets</b>                                     |                 |                 |                 |                 |                   |                  |
| Cash and cash equivalents                                   | ₱17,308,168,404 | ₱29,368,376,786 | ₱23,500,000     | ₱-              | ₱-                | ₱46,700,045,190  |
| Financial assets at FVPL:                                   |                 |                 |                 |                 |                   |                  |
| Held-for-trading:   |                 |                 |                 |                 |                   |                  |
| Debt securities:  |                 |                 |                 |                 |                   |                  |
| Government  | 8,206,143       | -               | -               | -               | -                 | 8,206,143        |
|   | 8,206,143       | -               | -               | -               | -                 | 8,206,143        |
| Equity securities:  |                 |                 |                 |                 |                   |                  |
| Quoted  | 527,400,278     | -               | 1,308,832,273   | -               | -                 | 1,836,232,551    |
|   | 527,400,278     | -               | 1,308,832,273   | -               | -                 | 1,836,232,551    |
| Investment in convertible note                              | -               | -               | -               | 1,806,085,829   | -                 | 1,806,085,829    |
|   | 535,606,421     | -               | 1,308,832,273   | 1,806,085,829   | -                 | 3,650,524,523    |
| Derivative financial assets designated as accounting hedges | -               | -               | 6,389,048       | -               | -                 | 6,389,048        |
| Financial assets at FVOCI:                                  |                 |                 |                 |                 |                   |                  |
| Debt securities:  |                 |                 |                 |                 |                   |                  |
| Private   | -               | -               | 7,331,706,086   | 5,632,953,272   | -                 | 12,964,659,358   |
| Government  | -               | -               | 3,004,788,682   | -               | 7,268,522,839     | 10,273,311,521   |
|   | -               | -               | 10,336,494,768  | 5,632,953,272   | 7,268,522,839     | 23,237,970,879   |
| Equity securities:  |                 |                 |                 |                 |                   |                  |
| Quoted  | 50,300,000      | -               | 371,191,210     | 19,457,411,625  | -                 | 19,878,902,835   |
| Unquoted  | -               | -               | 256,208,787     | -               | -                 | 256,208,787      |
|   | 50,300,000      | -               | 627,399,997     | 19,457,411,625  | -                 | 20,135,111,622   |
|   | 50,300,000      | -               | 10,963,894,765  | 25,090,364,897  | 7,268,522,839     | 43,373,082,501   |
| Investment securities at amortized cost:                    |                 |                 |                 |                 |                   |                  |
| Debt securities:  |                 |                 |                 |                 |                   |                  |
| Government  | -               | -               | -               | -               | 10,523,326,784    | 10,523,326,784   |
| Private   | -               | -               | -               | 1,427,512,166   | 646,250,767       | 2,073,762,933    |
|   | -               | -               | -               | 1,427,512,166   | 11,169,577,551    | 12,597,089,717   |
| Receivables:  |                 |                 |                 |                 |                   |                  |
| Trade receivables   | 3,774,011,263   | 15,285,523,340  | 699,484,032     | 1,200,135,528   | 320,310,585       | 21,279,464,748   |
| Finance receivables   | 6,054,300,530   | 5,584,725,299   | 6,986,013,290   | 17,488,441,348  | 32,334,805,081    | 68,448,285,548   |
| Due from related parties                                    | 1,574,492,811   | -               | -               | -               | -                 | 1,574,492,811    |
| Interest receivable   | 845,846,472     | 17,716,834      | 141,733,531     | -               | -                 | 1,005,296,837    |
| Other receivables   | 1,361,024,537   | 1,491,760,267   | 119,467,809     | -               | 149,022           | 2,972,401,635    |
|   | 13,609,675,613  | 22,379,725,740  | 7,946,698,662   | 18,688,576,876  | 32,655,264,688    | 95,279,941,579   |
| Refundable security deposits                                | 215,166,327     | -               | 7,483,548       | 558,738,138     | 233,442,871       | 1,014,830,884    |
|   | ₱31,718,916,765 | ₱51,748,102,526 | ₱20,256,798,296 | ₱47,571,277,906 | ₱51,326,807,949   | ₱202,621,903,442 |

|   | 2018             |                 |                 |                  |                   |                  |
|---|------------------|-----------------|-----------------|------------------|-------------------|------------------|
|   | On Demand        | Up to 3 Months  | 4 to 12 Months  | 1 to 5 Years     | More Than 5 Years | Total            |
| <b>Financial Liabilities</b>  |                  |                 |                 |                  |                   |                  |
| Accounts payable and accrued expenses (including noncurrent portion booked under 'Other noncurrent liabilities' in the consolidated statement of financial position but excluding 'Deposit liabilities' and 'Due to related parties') | ₱35,758,783,520  | ₱21,910,159,746 | ₱6,033,744,008  | ₱908,418,034     | ₱2,925,262,168    | ₱67,536,367,476  |
| Short-term debt   | 20,947,554,201   | 9,466,224,812   | 12,476,461,528  | -                | -                 | 42,890,240,541   |
| Deposit liabilities (included under 'Accounts payable and accrued expenses' and 'Other noncurrent liabilities' in the consolidated statements of financial position)  | 46,356,421,580   | 6,149,949,819   | 2,607,566,823   | 8,718,041,782    | 1,770,739,538     | 65,602,719,542   |
| Due to related parties (included under 'Accounts payable and accrued expense' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | 119,849,940      | 31,922,803      | -               | -                | -                 | 151,772,743      |
| Deposits from lessees (included under 'Other current liabilities' and 'Other noncurrent liabilities' in the consolidated statement of financial position)   | 1,057,031,997    | 269,565,385     | 1,332,081,610   | 1,847,971,470    | 802,800,443       | 5,309,450,905    |
| Long-term debt (including current portion)  | -                | 1,329,430,653   | 3,385,029,642   | 95,191,717,276   | 88,448,784,265    | 188,354,961,836  |
| Derivative liabilities  | -                | -               | -               | 763,322,060      | -                 | 763,322,060      |
|   | ₱104,239,641,238 | ₱39,157,253,218 | ₱25,834,883,611 | ₱107,429,470,622 | ₱93,947,586,414   | ₱370,608,835,103 |

### Market risk

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

The following discussion covers the market risks of the Group except for its Banking Segment:

*Foreign currency risk*

Foreign currency risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Group makes use of derivative financial instruments, such as currency swaps, to hedge foreign currency exposure (Note 8).

The Group has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the entities' functional currency. As of December 31, 2019, 2018 and 2017, approximately 32.0%, 34.5% and 35.5%, respectively, of the Group's total sales are denominated in currencies other than the functional currency. In addition, approximately 28.5% and 30.8% of total debt are denominated in US Dollar as of December 31, 2019 and 2018, respectively. The Group's capital expenditures are likewise substantially denominated in US Dollar.

The tables below summarize the Group's exposure to foreign currency risk as of December 31, 2019 and 2018:

|  | 2019                     |                       | Total                    |
|--|--------------------------|-----------------------|--------------------------|
|  | US Dollar                | Other Currencies*     |                          |
| <b>Assets</b>  |                          |                       |                          |
| Cash and cash equivalents                                    | ₱7,542,120,251           | ₱7,981,872,497        | ₱15,523,992,748          |
| Financial assets at FVPL                                     | 3,360,997,415            | 949,756,815           | 4,310,754,230            |
| Financial assets at FVOCI                                    | 7,529,856,518            | –                     | 7,529,856,518            |
| Receivables  | 7,358,744,421            | 627,967,213           | 7,986,711,634            |
| Other current assets   | 181,057,483              | –                     | 181,057,483              |
|  | <b>25,972,776,088</b>    | <b>9,559,596,525</b>  | <b>35,532,372,613</b>    |
| <b>Liabilities</b>   |                          |                       |                          |
| Accounts payable and accrued expenses                        | 11,232,068,685           | 1,472,923,402         | 12,704,992,087           |
| Financial liabilities at FVPL                                | 126,312,501              | –                     | 126,312,501              |
| Short-term debt  | 9,822,359,631            | –                     | 9,822,359,631            |
| Long-term debt (including current portion)                   | 62,925,369,057           | 8,424,916,122         | 71,350,285,179           |
|  | <b>84,106,109,874</b>    | <b>9,897,839,524</b>  | <b>94,003,949,398</b>    |
| <b>Net Foreign Currency-Denominated Assets (Liabilities)</b> | <b>(₱58,133,333,786)</b> | <b>(₱338,242,999)</b> | <b>(₱58,471,576,785)</b> |

\* Other currencies include Hongkong Dollar, Singapore Dollar, Chinese Yuan, Japanese Yen, Thai Baht, Malaysian ringgit, Korean won, New Taiwan dollar, Australian dollar and Euro

|  | 2018                     |                      | Total                    |
|--|--------------------------|----------------------|--------------------------|
|  | US Dollar                | Other Currencies*    |                          |
| <b>Assets</b>  |                          |                      |                          |
| Cash and cash equivalents                                    | ₱8,856,583,743           | ₱2,227,862,654       | ₱11,084,446,397          |
| Financial assets at FVPL                                     | 2,974,588,780            | –                    | 2,974,588,780            |
| Financial assets at FVOCI                                    | 10,322,134,596           | –                    | 10,322,134,596           |
| Receivables  | 20,508,015,300           | 384,783,471          | 20,892,798,771           |
| Other noncurrent assets                                      | 203,244,020              | –                    | 203,244,020              |
|  | <b>42,864,566,439</b>    | <b>2,612,646,125</b> | <b>45,477,212,564</b>    |
| <b>Liabilities</b>   |                          |                      |                          |
| Accounts payable and accrued expenses                        | 21,093,997,523           | 737,901,490          | 21,831,899,013           |
| Financial liabilities at FVPL                                | 762,985,362              | –                    | 762,985,362              |
| Short-term debt  | 9,180,819,989            | 1,651,127,328        | 10,831,947,317           |
| Long-term debt (including current portion)                   | 66,608,417,189           | –                    | 66,608,417,189           |
|  | <b>97,646,220,063</b>    | <b>2,389,028,818</b> | <b>100,035,248,881</b>   |
| <b>Net Foreign Currency-Denominated Assets (Liabilities)</b> | <b>(₱54,781,653,624)</b> | <b>₱223,617,307</b>  | <b>(₱54,558,036,317)</b> |

\* Other currencies include Hong Kong Dollar, Singaporean Dollar, Chinese Yuan, Malaysian ringgit, Korean won, New Taiwan dollar, Japanese yen, Australian dollar and Euro

The exchange rates used to convert the Group's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2019 and 2018 follow:

|   | <b>2019</b>                   | 2018                  |
|---|-------------------------------|-----------------------|
| US dollar-Philippine peso exchange rate | <b>₱50.64 to<br/>US\$1.00</b> | ₱52.58 to<br>US\$1.00 |

The following table sets forth the impact of the range of reasonably possible changes in the US Dollar-Philippine peso exchange rate on the Group's income before income tax (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2019 and 2018:

| Reasonably Possible Changes in<br>Exchange rates | Change in<br>Income Before Income Tax |                  |
|--|---------------------------------------|------------------|
|  | <b>2019</b>                           | 2018             |
| ₱2.0   | <b>(₱2,296,171,967)</b>               | (₱2,083,744,908) |
| (2.0)  | <b>2,296,171,967</b>                  | 2,083,744,908    |

Other than the potential impact on the Group's pre-tax income, the Group does not expect any other material effect on equity.

The Group does not expect the impact of the volatility on other currencies to be material.

#### *Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

In 2019 and 2018, changes in fair value of equity instruments held as financial assets at FVOCI due to a reasonably possible change in equity indices, with all other variables held constant, will increase profit by ₱244.2 million and ₱289.3 million if equity prices will increase by 1.5%. A similar increase in equity indices on AFS equity instruments will also increase net unrealized gains on other comprehensive income by ₱431.2 million as of December 31, 2017. In 2019, 2018 and 2017, changes in fair value of equity instruments held as financial assets at FVTPL due to a reasonably possible change in equity indices, with all other variables held constant, will increase profit by ₱6.1 million, ₱8.3 million and ₱83.7 million, respectively, if equity prices will increase by 1.5%. An equal change in the opposite direction would have decreased equity and profit by the same amount.

#### *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to the Parent Company's and its subsidiaries' long-term debt obligations which are subject to floating rate. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group makes use of derivative financial instruments, such as interest rate swaps, to hedge the variability in cash flows arising from fluctuation in benchmark interest rates.

The following tables show information about the Group's long-term debt with floating interest rate presented by maturity profile:

|   | 2019           |                  |                |                 |                |                 |                                    | Total<br>(in Philippine<br>Peso) | Debt<br>Issuance Costs | Carrying Value<br>(in Philippine<br>Peso) | Fair Value       |
|---|----------------|------------------|----------------|-----------------|----------------|-----------------|------------------------------------|----------------------------------|------------------------|---|------------------|
|   | <1 year        | >1-<2 years      | >2-<3 years    | >3-<4 years     | >4-<5 years    | >5 years        | Total<br>(in Original<br>Currency) |                                  |                        |   |                  |
| Long-term debt                                  |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Philippine peso                                 |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| <i>Floating rate</i>                            |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Commercial loans from banks                     |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate 5%-7%<br>(PDST-R2 and BVAL)       | ₱2,612,028,929 | ₱2,612,028,929   | ₱2,612,028,929 | ₱2,612,028,929  | ₱2,612,028,929 | ₱5,189,113,255  | ₱18,249,257,900                    | ₱18,249,257,900                  | ₱-                     | ₱18,249,257,900                           | ₱17,431,910,845  |
| BDO Term loan                                   |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate<br>(Prevailing market rate + GRT) | 376,027,397    | 375,000,000      | 375,000,000    | 10,155,136,986  | -              | -               | 11,281,164,383                     | 10,000,000,000                   | 53,102,517             | 9,946,897,483                             | 10,587,401,374   |
| MBTC Term loan                                  |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate<br>(BVAL + 0.5%)                  | 190,094,384    | 189,575,000      | 189,575,000    | 5,094,527,808   | -              | -               | 5,663,772,192                      | 5,000,000,000                    | 26,674,921             | 4,973,325,079                             | 5,367,527,315    |
| BPI Term Loan                                   |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate (BVAL + 0.75%)                    | 286,382,466    | 285,600,000      | 285,600,000    | 285,600,000     | 190,400,000    | -               | 1,333,582,466                      | 7,000,000,000                    | 49,117,085             | 6,950,882,915                             | 7,043,524,084    |
| BPI Term Loan                                   |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate (BVAL + 0.75%)                    | 656,550,402    | 691,188,200      | 691,188,200    | 691,188,200     | 14,921,394,765 | -               | 17,651,509,767                     | 14,508,000,000                   | -                      | 14,508,000,000                            | 17,213,688,871   |
| Foreign currencies:                             |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| <i>Floating rate</i>                            |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| US Dollar loans                                 |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| JPY Commercial loans                            |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Less than 1% (JPY LIBOR)                        | ¥1,506,555,004 | ¥1,552,581,304   | ¥1,560,736,932 | ¥1,568,936,150  | ¥1,577,004,749 | ¥10,434,479,925 | ¥18,200,294,064                    | 8,424,916,122                    | -                      | 8,424,916,122                             | 9,713,858,495    |
| USD Commercial loans                            |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate 3%-5% (USD LIBOR)                 | US\$70,618,924 | US\$71,715,442   | US\$82,704,501 | US\$93,909,666  | US\$73,530,123 | US\$209,285,879 | US\$601,764,535                    | 30,470,347,254                   | -                      | 30,470,347,254                            | 28,906,899,365   |
| New Zealand Dollar loans                        |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate (NZ BKBM+1.10%)                   | NZ\$9,505,456  | NZ\$9,557,683    | NZ\$9,531,569  | NZ\$404,453,228 | NZ\$-          | NZ\$-           | NZ\$433,047,936                    | 13,462,223,310                   | 165,466,470            | 13,296,756,840                            | 13,488,831,019   |
| Australian Dollar loans                         |                |                  |                |                 |                |                 |                                    |                                  |                        |   |                  |
| Interest rate (BBSY BID+1.25%)                  | AUS\$8,987,286 | AUS\$490,891,198 | AUS\$-         | AUS\$-          | AUS\$-         | AUS\$-          | AUS\$499,878,484                   | 17,200,057,755                   | 110,736,987            | 17,089,320,768                            | 17,077,499,232   |
|   |                |                  |                |                 |                |                 |                                    | ₱124,314,802,341                 | ₱405,097,980           | ₱123,909,704,361                          | ₱126,831,140,600 |



The following table sets forth the impact of the range of reasonably possible changes in the interest rates on the Group's income from floating debt obligations before income tax:

| Reasonably Possible Changes in<br>Interest Rates | Change in<br>Income Before Income Tax |                  |
|--|---------------------------------------|------------------|
|  | 2019                                  | 2018             |
| +150 basis points (bps)                          | <b>(₱2,568,951,727)</b>               | (₱2,055,973,531) |
| -150 bps   | <b>2,568,951,727</b>                  | 2,055,973,531    |

*Price interest rate risk*

The Group is exposed to the risks of changes in the value/future cash flows of its financial instruments due to its market risk exposures. The Group's exposure to interest rate risk relates primarily to the Group's financial assets at FVPL and financial assets at FVOCI investments.

Except for RBC, which uses Earnings-at -Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book, the table below shows the impact on income before income tax of the estimated future yield of the related market indices of the Group's FVPL and FVOCI investments using a sensitivity approach.

| Reasonably Possible Changes in<br>Interest Rates | Change in<br>Income Before Income Tax |                |
|--|---------------------------------------|----------------|
|  | 2019                                  | 2018           |
| +150 basis points (bps)                          | <b>(₱89,708,389)</b>                  | (₱109,598,149) |
| -150 bps   | <b>227,545,442</b>                    | 347,205,706    |

| Reasonably Possible Changes in<br>Interest Rates | Change in<br>Other Comprehensive Income |                |
|--|---|----------------|
|  | 2019                                    | 2018           |
| +150 basis points (bps)                          | <b>(₱498,410,017)</b>                   | (₱434,760,278) |
| -150 bps   | <b>584,540,763</b>                      | 498,725,445    |

*Commodity price risk*

The Group enters into commodity derivatives to manage its price risks on fuel purchases. Commodity hedging allows stability in prices, thus offsetting the risk of volatile market fluctuations. Depending on the economic hedge cover, the price changes on the commodity derivative positions are offset by higher or lower purchase costs on fuel. A change in price by US\$10.0 per barrel of jet fuel affects the Group's fuel annual costs on pre-tax income by ₱2.7 billion in 2019, ₱2.6 billion in 2018 and ₱2.5 billion in 2017, assuming no change in volume of fuel is consumed.

Commodity derivative contracts maturing 3 months from reporting date are designated for hedge accounting. Derivative financial instruments which are part of hedging relationships do not expose the Group to market risk since changes in the fair value of the derivatives are offset by the changes in the fair value of the hedged items.

The Group manages its commodity price risk through fuel surcharges which are approved by the Philippine Civil Aeronautics Board, a fuel hedge that protects the Group's fuel usage from volatile price fluctuations and certain operational adjustments in order to conserve fuel use in the way the aircraft is operated.

### *Banking Segment's Market Risk*

Market risk is defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities. These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

RBC observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on RBC's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Value-at-Risk (VaR) is computed to estimate potential losses arising from market movements. RBC calculates and monitors VaR and profit or loss on a daily basis.

### *VaR objectives and methodology*

VaR is used by RBC to measure market risk exposure from its trading and investment activities. VaR is an estimate of the maximum decline in value on a given position over a specified holding period in a normal market environment, with a given probability of occurrence. RBC uses the historical simulation method in estimating VaR. The historical simulation method is a non-parametric approach to VaR calculation, in which asset returns are not subject to any functional distribution assumption. VaR is estimated directly from historical data without deriving parameters or making assumptions about the entire data distribution.

In employing the historical simulation method, RBC assumes a 500 historical data (approximately 2 years) and updates its dataset on a daily basis. Per RBC's policy, VaR is based on a 1-day holding period and a confidence level of 99%.

### *VaR methodology limitations and assumptions*

Discussed below are the limitations and assumptions applied by RBC on its VaR methodology:

- a. VaR is a statistical estimate; thus, it does not give the precise amount of loss RBC may incur in the future;
- b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a RBC's exposure to market risk;
- c. Since VaR is computed from end-of-day positions and market factors, VaR does not capture intraday market risk.
- d. VaR systems depend on historical data. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Therefore, market shifts (i.e., an unexpected collapse of the market) will not be captured and may inflict losses larger than VaR; and
- e. The limitation relating to the pattern of historical returns being indicative of future returns is addressed by supplementing VaR with daily stress testing reported to the RMC, ALCO and the concerned risk-takers.

VaR back testing is the process by which financial institutions periodically compare ex-post profit or loss with the ex-ante VaR figures to gauge the robustness of the VaR model. RBC performs quarterly back testing.

RBC's VaR figures are as follows (in millions):

|                       | 2019            |                 |                 |                 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
|                       | Average Daily   | Highest         | Lowest          | December 31     |
| Local interest rates  | <b>₱0.0092</b>  | <b>₱1.8670</b>  | <b>₱0.0382</b>  | –               |
| Foreign interest rate | <b>\$0.0005</b> | <b>\$0.0022</b> | <b>\$0.0001</b> | <b>\$0.0004</b> |

|                       | 2018          |          |          |             |
|-----------------------|---------------|----------|----------|-------------|
|                       | Average Daily | Highest  | Lowest   | December 31 |
| Local interest rates  | ₱0.1622       | ₱1.8121  | ₱0.0005  | –           |
| Foreign interest rate | \$0.0018      | \$0.0034 | \$0.0005 | \$0.0020    |

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

RBC's ALCO surveys the interest rate environment, adjusts the interest rates for RBC's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. RBC uses Earnings-at-Risk as a tool for measuring and managing interest rate risk in the banking book.

*Earnings-at-Risk objectives and methodology*

Earnings-at-Risk (EaR) is a statistical measure of the likely impact of changes in interest rates to the RBC's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility, although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that RBC's net interest income could decline if interest rates decrease upon repricing. A negative repricing gap implies that RBC's net interest income could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk.

To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the Risk Management Committee quarterly.

RBC's EaR figures are as follows (in PHP millions):

|   | 2019           |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | Average        | High           | Low            | December 31    |
| Instruments sensitive to local interest rates   | <b>₱292.65</b> | <b>₱361.38</b> | <b>₱195.18</b> | <b>₱302.75</b> |
| Instruments sensitive to foreign interest rates | <b>\$0.18</b>  | <b>\$0.25</b>  | <b>\$0.11</b>  | <b>\$0.18</b>  |

|   | 2018    |         |         |             |
|---|---------|---------|---------|-------------|
|   | Average | High    | Low     | December 31 |
| Instruments sensitive to local interest rates   | ₱322.01 | ₱392.20 | ₱271.40 | ₱392.20     |
| Instruments sensitive to foreign interest rates | \$0.14  | \$0.18  | \$0.11  | \$0.13      |

*Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The BOD has set limits on positions by currency. In accordance with the RBC's policy, positions are monitored on a daily basis and are used to ensure positions are maintained within established limits.

| <b>December 31, 2019</b>     |                                  | <b>Statement of<br/>Income</b>          |
|------------------------------|----------------------------------|---|
| +10% USD appreciation        | <b>USD</b>                       | <b>₱64,889,289</b>                      |
|                              | <b>Other Foreign Currencies*</b> | <b>813,063</b>                          |
| -10% USD depreciation        | <b>USD</b>                       | <b>(64,889,289)</b>                     |
|                              | <b>Other Foreign Currencies*</b> | <b>(813,063)</b>                        |
|                              |                                  | Statement of<br>Comprehensive<br>Income |
| <hr/>                        |                                  |   |
| December 31, 2018            |                                  |   |
| <b>+10% USD appreciation</b> | USD                              | (₱4,692,232)                            |
|                              | Other Foreign Currencies*        | 31,755,352                              |
| <b>-10% USD depreciation</b> | USD                              | (4,692,232)                             |
|                              | Other Foreign Currencies*        | 31,755,352                              |

## 5. Fair Value Measurement

The following methods and assumptions were used to estimate the fair value of each asset and liability for which it is practicable to estimate such value:

*Cash and cash equivalents, receivables (except for finance receivables and installment contract receivables), accounts payable and accrued expenses and short-term debt*

Carrying amounts approximate their fair values due to the relatively short-term maturities of these instruments.

*Finance receivables*

Fair values of loans are estimated using the discounted cash flow methodology, using RBC's current incremental lending rates for similar types of loans. Where the instruments are repriced on a quarterly basis or have a relatively short-term maturity, the carrying amounts approximate fair values.

*Installment contract receivables*

Fair values of installment contract receivables are based on the discounted value of future cash flows using the applicable rates for similar types of receivables. The discount rates used range from 3.6% to 4.3% in 2019 and 3.0% to 4.7% in 2018.

*Debt securities*

Fair values of debt securities are generally based on quoted market prices. If the fair value of financial assets cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models using inputs from observable markets subject to a degree of judgment.

*Quoted equity securities*

Fair values are based on quoted prices published in markets.

*Unquoted equity securities*

Investment in unquoted equity security classified as FVOCI include interest in unlisted preference shares of stock of a fintech company. The adjusted net asset value approach was used in estimating the fair value of the equity security where assets and liabilities are restated to current fair values.

*Amounts due from and due to related parties*

Carrying amounts of due from and due to related parties which are collectible/payable on demand approximate their fair values. Due from related parties are unsecured and have no foreseeable terms of repayments.

*Noninterest-bearing refundable security deposits*

The fair values are determined as the present value of estimated future cash flows using prevailing market rates.

*Investment in convertible note*

The fair value of the convertible notes are determined using equity valuation method using comparable companies' market data..

*Biological assets*

Biological assets are measured at their fair values less costs to sell. The fair values of Level 2 biological assets are determined based on current market prices of livestock of similar age, breed and genetic merit while Level 3 are determined based on adjusted commercial farmgate prices. Costs to sell include commissions to brokers and dealers, nonrefundable transfer taxes and duties.

The Group has determined that the highest and best use of the sucklings and weanlings is finishers while for other biological assets is their current use.

*Derivative financial instruments*

The fair values of the interest rate swaps and commodity swaps and options are determined based on the quotes obtained from counterparties. The fair values of forward exchange derivatives are calculated by reference to the prevailing interest differential and spot exchange rate as of valuation date, taking into account the remaining term-to-maturity of the forwards. The fair values of cross currency swaps are based on the discounted cash flow swap valuation model of a third party provider.

*Investment properties*

Fair value of investment properties is based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Group's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made.

The Group has determined that the highest and best use of the property used for the land and building is its current use.

*Time deposits*

Fair values are estimated using the discounted cash flow methodology using RBC's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liabilities being valued.

*Long-term negotiable certificates of deposit (LTNCD)*

Fair values of LTNCD are estimated using quoted market rates for the instrument.

*Deposits from lessees*

The fair value of customers' deposits is based on the discounted value of future cash flows using the applicable rates for similar types of loans and receivables as of reporting date. The discount rates used range from 3.6% to 4.3% in 2019 and 4.9% to 6.5% in 2018.

*Long-term debt*

The fair value of long-term debt is based on the discounted value of future cash flows (interests and principal) using the applicable rates for similar types of loans. The discount rates used range from 2% to 6% in 2019 and 2018.

*Fair Value Hierarchy Assets and Liabilities*

Assets and liabilities carried at fair value are those whose fair values are required to be disclosed.

- (a) Level 1: quoted (unadjusted) prices in an active market for identical assets or liabilities;
- (b) Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- (c) 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 following table shows the Group's assets and liabilities carried at fair value:

|   | December 31, 2019       |                        |                       |                         |                         |
|---|-------------------------|------------------------|-----------------------|-------------------------|-------------------------|
|   | Carrying Value          | Level 1                | Level 2               | Level 3                 | Total Fair value        |
| <i>Assets measured at fair value</i>              |                         |                        |                       |                         |                         |
| <i>Financial assets at FVPL:</i>                  |                         |                        |                       |                         |                         |
| <i>Held-for-trading:</i>                          |                         |                        |                       |                         |                         |
| <i>Debt securities:</i>                           |                         |                        |                       |                         |                         |
| Government  | ₱3,943,264              | ₱3,943,264             | ₱-                    | ₱-                      | ₱3,943,264              |
| Derivative assets                                 | 992,618                 | -                      | 992,618               | -                       | 992,618                 |
| <i>Equity securities:</i>                         |                         |                        |                       |                         |                         |
| Quoted  | 1,718,536,973           | 1,718,536,973          | -                     | -                       | 1,718,536,973           |
| Investment in convertible notes                   | 2,661,172,115           | -                      | 2,661,172,115         | -                       | 2,661,172,115           |
|   | <b>4,384,644,970</b>    | <b>1,722,480,237</b>   | <b>2,662,164,733</b>  | <b>-</b>                | <b>4,384,644,970</b>    |
| <i>Financial assets at FVOCI</i>                  |                         |                        |                       |                         |                         |
| <i>Debt securities:</i>                           |                         |                        |                       |                         |                         |
| Government  | 9,392,806,983           | 9,392,806,983          | -                     | -                       | 9,392,806,983           |
| Private   | 11,902,368,238          | 11,902,368,238         | -                     | -                       | 11,902,368,238          |
|   | <b>21,295,175,221</b>   | <b>21,295,175,221</b>  | <b>-</b>              | <b>-</b>                | <b>21,295,175,221</b>   |
| <i>Equity securities:</i>                         |                         |                        |                       |                         |                         |
| Quoted  | 24,528,006,195          | 24,451,716,195         | 76,290,000            | -                       | 24,528,006,195          |
| Unquoted  | 487,055,158             | -                      | 487,055,158           | -                       | 487,055,158             |
|   | <b>25,015,061,353</b>   | <b>24,451,716,195</b>  | <b>563,345,158</b>    | <b>-</b>                | <b>25,015,061,353</b>   |
|   | <b>46,310,236,574</b>   | <b>45,746,891,416</b>  | <b>563,345,158</b>    | <b>-</b>                | <b>46,310,236,574</b>   |
| Biological assets                                 | 957,563,597             | -                      | 59,841,764            | 897,721,833             | 957,563,597             |
|   | <b>₱51,652,445,141</b>  | <b>₱47,036,166,430</b> | <b>₱3,718,556,878</b> | <b>₱897,721,833</b>     | <b>₱51,652,445,141</b>  |
| <i>Assets for which fair values are disclosed</i> |                         |                        |                       |                         |                         |
| Investment securities at amortized cost           | ₱11,357,261,241         | ₱3,954,282,863         | ₱7,126,636,855        | ₱-                      | ₱11,080,919,718         |
| <i>Receivables:</i>                               |                         |                        |                       |                         |                         |
| Trade receivables                                 | 21,833,432,330          | -                      | -                     | 21,822,778,474          | 21,822,778,474          |
| Finance receivables                               | 78,822,852,386          | -                      | -                     | 68,103,804,141          | 68,103,804,141          |
| Other receivables                                 | 4,006,361,653           | -                      | -                     | 4,037,334,437           | 4,037,334,437           |
| Refundable deposits                               | 998,172,715             | -                      | -                     | 989,252,873             | 989,252,873             |
| Investment properties                             | 99,000,246,036          | -                      | -                     | 248,990,916,682         | 248,990,916,682         |
|   | <b>₱216,018,326,361</b> | <b>₱3,954,282,863</b>  | <b>7,126,636,855</b>  | <b>₱343,944,086,607</b> | <b>₱355,025,006,325</b> |
| Deposit liabilities                               | ₱103,995,566,150        | ₱-                     | ₱-                    | ₱104,726,603,234        | ₱104,726,603,234        |
| Derivative liabilities                            | 432,610,810             | -                      | 432,610,810           | -                       | 432,610,810             |
| Deposits from lessees                             | 6,100,144,195           | -                      | -                     | 5,535,394,216           | 5,535,394,216           |
| Long-term debt (including current portion)        | 218,935,534,707         | -                      | -                     | 209,263,641,879         | 209,263,641,879         |
|   | <b>₱329,463,855,862</b> | <b>₱-</b>              | <b>₱432,610,810</b>   | <b>₱319,525,639,329</b> | <b>₱319,958,250,139</b> |

|   | December 31, 2018 |                 |                 |                  |                  |
|---|-------------------|-----------------|-----------------|------------------|------------------|
|   | Carrying Value    | Level 1         | Level 2         | Level 3          | Total Fair value |
| <i>Assets measured at fair value</i>                        |                   |                 |                 |                  |                  |
| Financial assets at FVPL:                                   |                   |                 |                 |                  |                  |
| Held-for-trading:   |                   |                 |                 |                  |                  |
| Debt securities:  |                   |                 |                 |                  |                  |
| Government  | ₱8,206,143        | ₱8,206,143      | ₱-              | ₱-               | ₱8,206,143       |
| Equity securities:  |                   |                 |                 |                  |                  |
| Quoted  | 1,836,232,551     | 1,836,232,551   | -               | -                | 1,836,232,551    |
| Investment in convertible notes                             | 1,806,085,829     | -               | 1,806,085,829   | -                | 1,806,085,829    |
|   | 3,650,524,523     | 1,844,438,694   | 1,806,085,829   | -                | 3,650,524,523    |
| Derivative financial assets designated as accounting hedges | 6,389,048         | -               | 6,389,048       | -                | 6,389,048        |
|   | 3,656,913,571     | 1,844,438,694   | 1,812,474,877   | -                | 3,656,913,571    |
| Financial assets at FVOCI                                   |                   |                 |                 |                  |                  |
| Debt securities:  |                   |                 |                 |                  |                  |
| Government  | 10,273,311,521    | 10,273,311,521  | -               | -                | 10,273,311,521   |
| Private   | 12,964,659,358    | 12,964,659,358  | -               | -                | 12,964,659,358   |
|   | 23,237,970,879    | 23,237,970,879  | -               | -                | 23,237,970,879   |
| Equity securities:  |                   |                 |                 |                  |                  |
| Quoted  | 19,878,902,835    | 19,828,602,835  | 50,300,000      | -                | 19,878,902,835   |
| Unquoted  | 256,208,787       | -               | 256,208,787     | -                | 256,208,787      |
|   | 43,373,082,501    | 43,066,573,714  | 306,508,787     | -                | 43,373,082,501   |
| Biological assets   | 1,107,904,051     | -               | 137,522,046     | 970,382,005      | 1,107,904,051    |
|   | ₱48,137,900,123   | ₱44,911,012,408 | ₱2,256,505,710  | ₱970,382,005     | ₱48,137,900,123  |
| <i>Assets for which fair values are disclosed</i>           |                   |                 |                 |                  |                  |
| Investment securities at amortized cost:                    |                   |                 |                 |                  |                  |
| Debt securities:  |                   |                 |                 |                  |                  |
| Government  | ₱10,523,326,784   | ₱-              | ₱10,523,326,784 | ₱-               | ₱10,523,326,784  |
| Private   | 2,073,762,933     | -               | 2,073,762,933   | -                | 2,073,762,933    |
|   | 12,597,089,717    | -               | 12,597,089,717  | -                | 12,597,089,717   |
| Receivables:  |                   |                 |                 |                  |                  |
| Trade receivables   | 21,000,162,333    | -               | -               | 19,611,590,785   | 19,611,590,785   |
| Finance receivables   | 66,897,077,529    | -               | -               | 74,067,342,941   | 74,067,342,941   |
| Other receivables   | 2,622,354,898     | -               | -               | 2,613,815,499    | 2,613,815,499    |
| Refundable deposits   | 1,014,830,884     | -               | -               | 969,010,794      | 969,010,794      |
| Investment properties                                       | 93,816,970,875    | -               | -               | 201,397,348,388  | 201,397,348,388  |
| Repossessed chattels  | 101,671,945       | -               | -               | 134,336,570      | 134,336,570      |
|   | ₱185,453,068,464  | ₱-              | ₱-              | ₱298,793,444,977 | ₱298,793,444,977 |
| Deposit liabilities   | ₱85,388,842,035   | ₱-              | ₱-              | ₱84,921,731,583  | ₱84,921,731,583  |
| Derivative liabilities                                      | 763,322,060       | -               | 763,322,060     | -                | 763,322,060      |
| Deposits from lessees                                       | 5,309,450,905     | -               | -               | 4,570,524,401    | 4,570,524,401    |
| Long-term debt (including current portion)                  | 210,248,967,348   | -               | -               | 177,130,372,140  | 177,130,372,140  |
|   | ₱301,710,582,348  | ₱-              | ₱763,322,060    | ₱266,622,628,124 | ₱267,385,950,184 |

In 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements. Non-financial asset determined under Level 3 includes investment properties. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period. There were also no changes in the purpose of any financial asset that subsequently resulted in a different classification of that asset.

Description of significant unobservable inputs to valuation:

| Account               | Valuation Technique                    | Significant Unobservable Inputs  |
|-----------------------|--|--|
| Loans and receivables | Discounted cash flow method            | 4.0% - 14.75% risk premium rate  |
| Biological assets     | Adjusted commercial farmgate prices    | Commercial farmgate prices   |
| Investment properties | Market data approach and Cost approach | Price/cost per square meter, size, shape, location, time element, discount, replacement cost and depreciation for improvements |
| Refundable deposits   | Discounted cash flow method            | Discount rate, capitalization rate, growth rate, occupancy rate  |
| Repossessed chattels  | Discounted cash flow method            | 0.25% - 11.50% risk premium rate   |
| Time deposits         | Market data approach                   | Price per unit, size, shape, location, time element and discount   |
| Long-term debt        | Discounted cash flow method            | 0.25% - 3.90% risk premium rate  |
|                       | Discounted cash flow method            | 2% - 6% discount rate  |

Significant increases (decreases) in reasonable profit margin applied would result in a significantly higher (lower) fair value of the biological assets, considering all other variables are held constant.

*Significant Unobservable Inputs*

|                                     |   |
|-------------------------------------|---|
| 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 the 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 investor's 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.   |
| Risk premium                        | The return in excess of the risk-free rate of return that an investment is expected to yield.   |
| Reasonable profit margin            | Mark up of biological assets at different stages of development.  |
| Adjusted commercial farmgate prices | Fair value based on commercial farmgate prices, adjusted by considering the age, breed and genetic merit  |

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## 6. Segment Information

### Operating Segments

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 industry segments where the Group operates are as follows:

- Foods, agro-industrial and commodities businesses - manufacturing of snack foods, granulated coffee and pre-mixed coffee, chocolates, candies, biscuits, instant noodles, ice cream and frozen novelties, pasta and tomato-based products and canned beans; raising of hog, chicken and manufacturing and distribution of animal feeds, corn products and vegetable oil and the synthesis of veterinary compound; and sugar milling and refining and flour milling.
- Air transportation - air transport services, both domestic and international, for passengers and cargoes.

- Real estate and hotels - ownership, development, leasing and management of shopping malls and retail developments; ownership and operation of prime hotels in major Philippine cities; development, sale and leasing of office condominium space in office buildings and mixed-use developments including high rise residential condominiums; and development of land into residential subdivisions and sale of subdivision lots and residential houses and the provision of customer financing for sales.
- Petrochemicals - manufacturer of polyethylene (PE) and polypropylene (PP), polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.
- Banking - commercial banking operations, including deposit-taking, lending, foreign exchange dealing and fund transfers or remittance servicing.
- Other supplementary businesses - asset management, insurance brokering, foreign exchange and securities dealing. This also includes dividend income from PLDT and equity in net earnings of Meralco and GBPC.

No operating segments have been aggregated to form the above reportable operating business segments.

The Group does not have a single external major customer (which represents 10.0% of Group's revenues).

Management monitors the operating results of each segment. The measure presented to manage segment performance is the segment operating income (loss). Segment operating income (loss) is based on the same accounting policies as the consolidated operating income (loss) except that intersegment revenues are eliminated only at the consolidation level. Group financing (including finance cost and other charges), finance income, market valuation gains(losses) on financial assets at FVPL and derivatives, foreign exchange gains (losses), other operating income, general and administrative expenses, impairment losses and others and income taxes are managed on a group basis and are not allocated to operating segments. Transfer pricing between operating segments are on arm's length basis in a manner similar to transactions with third parties.

The Executive Committee (Excom) is actively involved in planning, approving, reviewing, and assessing the performance of each of the Group's segments. The Excom oversees Group's decision making process. The Excom's functions are supported by the heads of each of the operating segments, which provide essential input and advice in the decision-making process. The Excom is the Group's chief operating decision maker.

The following tables present the financial information of each of the operating segments in accordance with PFRS except for 'Core earnings', EBIT' and EBITDA' as of and for the years ended December 31, 2019, 2018 and 2017. Core earnings pertain to income before income tax excluding market valuation gains (losses) on financial assets at FVPL, market valuation gains (losses) on derivative financial instruments and foreign exchange gains (losses).

The Group's operating segment information follows:

|  | December 31, 2019                            |                       |                           |                  |                |                                      |                                    |                     |
|--|--|-----------------------|---------------------------|------------------|----------------|--------------------------------------|------------------------------------|---------------------|
|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals   | Banking        | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |
| <b>Revenue</b>   |  |                       |                           |                  |                |                                      |                                    |                     |
| Sale of goods and services:  |  |                       |                           |                  |                |                                      |                                    |                     |
| External customers   | ₱134,174,527,579                             | ₱84,806,810,363       | ₱30,210,187,210           | ₱29,053,982,086  | ₱8,121,662,955 | ₱749,175,892                         | ₱-                                 | ₱287,116,346,085    |
| Intersegment revenues  | -  | -                     | 373,648,355               | 1,021,253,450    | -              | -                                    | (1,394,901,805)                    | -                   |
| Dividend income (Note 28)  | 134,174,527,579                              | 84,806,810,363        | 30,583,835,565            | 30,075,235,536   | 8,121,662,955  | 749,175,892                          | (1,394,901,805)                    | 287,116,346,085     |
| Equity in net earnings of associates and joint ventures (Note 14)      | 16,151,435                                   | -                     | -                         | -                | 10,178,075     | 1,323,581,816                        | (1,199,410)                        | 1,348,711,916       |
| Income from operations   | (158,602,482)                                | 66,959,384            | 6,105,626,129             | -                | -              | 7,291,201,995                        | 52,326,144                         | 13,357,511,170      |
| <b>Total revenue</b>   | 134,032,076,532                              | 84,873,769,747        | 36,689,461,694            | 30,075,235,536   | 8,131,841,030  | 9,363,959,703                        | (1,343,775,071)                    | 301,822,569,171     |
| Cost of sales and services (Note 30)                                   | 93,861,929,762                               | 49,518,018,515        | 14,204,146,300            | 30,232,850,986   | 3,173,237,752  | -                                    | (1,208,682,068)                    | 189,781,501,247     |
| <b>Gross income</b>  | ₱40,170,146,770                              | ₱35,355,751,232       | ₱22,485,315,394           | (₱157,615,450)   | ₱4,958,603,278 | ₱9,363,959,703                       | (₱135,093,003)                     | 112,041,067,924     |
| General and administrative expenses (Note 31)                          |  |                       |                           |                  |                |                                      |                                    | 57,983,100,861      |
| Impairment losses and others (Note 34)                                 |  |                       |                           |                  |                |                                      |                                    | (2,144,968,452)     |
| <b>Operating income</b>  |  |                       |                           |                  |                |                                      |                                    | 56,202,935,515      |
| Financing cost and other charges (Note 35)                             |  |                       |                           |                  |                |                                      |                                    | (10,965,846,901)    |
| Finance income (Note 27)   |  |                       |                           |                  |                |                                      |                                    | 2,096,212,143       |
| Other operating income (Note 29)                                       |  |                       |                           |                  |                |                                      |                                    | (764,665,540)       |
| <b>Core earnings</b>   |  |                       |                           |                  |                |                                      |                                    | 46,568,635,217      |
| Market valuation gains (losses) on financial assets                    |  |                       |                           |                  |                |                                      |                                    | 640,533,460         |
| Foreign exchange gains (losses)  |  |                       |                           |                  |                |                                      |                                    | 828,657,682         |
| <b>Income before income tax</b>  |  |                       |                           |                  |                |                                      |                                    | 48,037,826,359      |
| Provision for income tax (Note 38)                                     |  |                       |                           |                  |                |                                      |                                    | 5,372,314,510       |
| <b>Net income</b>  |  |                       |                           |                  |                |                                      |                                    | ₱42,665,511,849     |
| <b>Net income attributable to equity holders of the Parent Company</b> | ₱5,399,282,651                               | ₱6,185,199,432        | ₱11,333,531,130           | ₱970,642,663     | ₱431,655,905   | ₱6,902,496,160                       | ₱62,438,391                        | ₱31,285,246,332     |
| <b>EBIT</b>  | ₱15,011,957,658                              | ₱12,621,017,504       | ₱12,282,895,865           | ₱858,955,829     | ₱781,026,480   | ₱14,647,082,179                      | ₱-                                 | ₱56,202,935,515     |
| Depreciation and amortization (Notes 15, 16, 18 and 33)                | 7,310,056,927                                | 15,399,075,784        | 4,966,545,415             | 1,954,567,251    | 579,139,834    | 179,628,855                          | (376,017,960)                      | 30,012,996,106      |
| Reversal of impairment loss  | -  | -                     | -                         | (2,274,795,253)  | -              | -                                    | -                                  | (2,274,795,253)     |
| <b>EBITDA</b>  | ₱22,322,014,585                              | ₱28,020,093,288       | ₱17,249,441,280           | ₱538,727,827     | ₱1,360,166,314 | ₱14,826,711,034                      | (₱376,017,960)                     | ₱83,941,136,368     |
| <b>Other information</b>   |  |                       |                           |                  |                |                                      |                                    |                     |
| Non-cash expenses other than depreciation and amortization (Note 34):  |  |                       |                           |                  |                |                                      |                                    |                     |
| Impairment losses on receivables (Note 11)                             | ₱2,208,724                                   | ₱3,427                | ₱-                        | ₱-               | ₱131,435,597   | ₱-                                   | ₱-                                 | ₱133,647,748        |
| Inventory obsolescence and market decline (Note 12)                    | 2,678  | -                     | -                         | -                | -              | -                                    | -                                  | 2,678               |
| Property, plant and equipment  | -  | -                     | -                         | (2,274,795,253)  | -              | -                                    | -                                  | (2,274,795,253)     |
| Impairment losses on other assets                                      | -  | -                     | -                         | -                | (3,823,625)    | -                                    | -                                  | (3,823,625)         |
|  | ₱2,211,402                                   | ₱3,427                | ₱-                        | (₱2,274,795,253) | ₱127,611,972   | ₱-                                   | ₱-                                 | (₱2,144,968,452)    |

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|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking        | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |
|--|--|-----------------------|---------------------------|-----------------|----------------|--------------------------------------|------------------------------------|---------------------|
| <b>Revenue</b>   |  |                       |                           |                 |                |                                      |                                    |                     |
| Sale of goods and services:  |  |                       |                           |                 |                |                                      |                                    |                     |
| External customers   | ₱127,769,949,329                             | ₱74,113,776,885       | ₱29,467,564,096           | ₱42,351,966,134 | ₱6,132,382,567 | ₱670,963,828                         | ₱-                                 | ₱280,506,602,839    |
| Intersegment revenues  | 127,769,949,329                              | 74,113,776,885        | 29,545,313,891            | 43,776,263,510  | 6,132,382,567  | 670,963,828                          | (1,502,047,171)                    | 280,506,602,839     |
| Dividend income (Note 28)  | 32,302,870                                   | -                     | -                         | -               | 11,212,315     | 1,185,257,167                        | (1,199,410)                        | 1,227,572,942       |
| Equity in net earnings of associates and joint ventures (Note 14)      | (132,407,965)                                | 136,264,174           | 3,213,224,264             | -               | -              | 6,970,712,104                        | (5,950,694)                        | 10,181,841,883      |
| <b>Total revenue</b>   | 127,669,844,234                              | 74,250,041,059        | 32,758,538,155            | 43,776,263,510  | 6,143,594,882  | 8,826,933,099                        | (1,509,197,275)                    | 291,916,017,664     |
| Cost of sales and services (Note 30)                                   | 90,332,569,588                               | 48,039,492,056        | 13,668,592,264            | 40,917,554,303  | 2,275,281,099  | -                                    | (1,640,615,966)                    | 193,592,873,344     |
| <b>Gross income</b>  | ₱37,337,274,646                              | ₱26,210,549,003       | ₱19,089,945,891           | ₱2,858,709,207  | ₱3,868,313,783 | ₱8,826,933,099                       | ₱131,418,691                       | 98,323,144,320      |
| General and administrative expenses (Note 31)                          |  |                       |                           |                 |                |                                      |                                    | 52,912,530,779      |
| Impairment losses and others (Note 34)                                 |  |                       |                           |                 |                |                                      |                                    | 145,801,581         |
| <b>Operating income</b>  |  |                       |                           |                 |                |                                      |                                    | 45,264,811,960      |
| Financing cost and other charges (Note 35)                             |  |                       |                           |                 |                |                                      |                                    | (9,635,374,773)     |
| Finance income (Note 27)   |  |                       |                           |                 |                |                                      |                                    | 1,745,547,717       |
| Other operating income (Note 29)                                       |  |                       |                           |                 |                |                                      |                                    | (459,468,426)       |
| <b>Core earnings</b>   |  |                       |                           |                 |                |                                      |                                    | 36,915,516,478      |
| Market valuation gains (losses) on financial assets                    |  |                       |                           |                 |                |                                      |                                    | (1,019,886,441)     |
| Foreign exchange gains (losses)  |  |                       |                           |                 |                |                                      |                                    | (2,854,338,888)     |
| <b>Income before income tax</b>  |  |                       |                           |                 |                |                                      |                                    | 33,041,291,149      |
| Provision for income tax (Note 38)                                     |  |                       |                           |                 |                |                                      |                                    | 5,143,793,706       |
| <b>Net income</b>  |  |                       |                           |                 |                |                                      |                                    | ₱27,897,497,443     |
| <b>Net income attributable to equity holders of the Parent Company</b> | ₱5,085,554,061                               | ₱2,653,143,265        | ₱8,248,872,579            | ₱1,054,195,029  | ₱190,609,473   | ₱2,358,536,287                       | (₱404,870,421)                     | ₱19,186,040,273     |
| <b>EBIT</b>  | ₱13,380,612,790                              | ₱7,049,885,460        | ₱11,880,368,758           | ₱1,529,162,830  | ₱437,211,655   | ₱10,987,570,467                      | ₱-                                 | ₱45,264,811,960     |
| Depreciation and amortization (Notes 15, 16, 18 and 33)                | 6,369,775,844                                | 7,479,321,315         | 4,456,732,645             | 1,848,781,422   | 318,332,674    | 94,336,114                           | -                                  | 20,567,280,014      |
| <b>EBITDA</b>  | ₱19,750,388,634                              | ₱14,529,206,775       | ₱16,337,101,403           | ₱3,377,944,252  | ₱755,544,329   | ₱11,081,906,581                      | ₱-                                 | ₱65,832,091,974     |
| <b>Other information</b>   |  |                       |                           |                 |                |                                      |                                    |                     |
| Non-cash expenses other than depreciation and amortization (Note 34):  |  |                       |                           |                 |                |                                      |                                    |                     |
| Impairment losses on receivables (Note 11)                             | ₱17,774,108                                  | ₱-                    | ₱-                        | ₱-              | ₱99,575,581    | ₱-                                   | ₱-                                 | ₱117,349,689        |
| Inventory obsolescence and market decline (Note 12)                    | 7,948,049                                    | -                     | -                         | -               | -              | -                                    | -                                  | 7,948,049           |
| Property, plant and equipment  | 1,699,792                                    | -                     | -                         | -               | -              | -                                    | -                                  | 1,699,792           |
| Impairment losses on other assets                                      | 17,579,587                                   | -                     | -                         | -               | 1,224,464      | -                                    | -                                  | 18,804,051          |
|  | ₱45,001,536                                  | ₱-                    | ₱-                        | ₱-              | ₱100,800,045   | ₱-                                   | ₱-                                 | ₱145,801,581        |

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|  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking        | Other<br>Supplementary<br>Businesses | Adjustments<br>and<br>Eliminations | TOTAL<br>OPERATIONS |
|--|--|-----------------------|---------------------------|-----------------|----------------|--------------------------------------|------------------------------------|---------------------|
| <b>Revenue</b>   |  |                       |                           |                 |                |                                      |                                    |                     |
| Sale of goods and services:  |  |                       |                           |                 |                |                                      |                                    |                     |
| External customers   | ₱125,007,824,013                             | ₱68,029,131,426       | ₱22,448,257,224           | ₱41,406,489,496 | ₱4,475,828,582 | ₱717,368,505                         | ₱-                                 | ₱262,084,899,246    |
| Intersegment revenues  | 125,007,824,013                              | 68,029,131,426        | 22,516,817,630            | 42,596,919,802  | 4,475,828,582  | 717,368,505                          | (1,258,990,712)                    | -                   |
| Dividend income (Note 28)  | 12,921,148                                   | -                     | -                         | -               | 13,399,782     | 1,426,716,235                        | (1,199,410)                        | 1,451,837,755       |
| Equity in net earnings of associates and joint ventures (Note 14)      | (280,533,323)                                | 140,330,649           | 3,752,117,462             | -               | -              | 6,310,746,773                        | (13,943,655)                       | 9,908,717,906       |
| <b>Total revenue</b>   | 124,740,211,838                              | 68,169,462,075        | 26,268,935,092            | 42,596,919,802  | 4,489,228,364  | 8,454,831,513                        | (1,274,133,777)                    | 273,445,454,907     |
| Cost of sales and services (Note 30)                                   | 85,693,555,234                               | 40,626,822,232        | 10,626,386,640            | 34,811,743,595  | 1,183,714,020  | -                                    | (1,387,580,735)                    | 171,554,440,986     |
| <b>Gross income</b>  | ₱39,046,856,604                              | ₱27,542,639,843       | ₱15,642,548,452           | ₱7,785,176,207  | ₱3,305,514,344 | ₱8,454,831,513                       | ₱113,446,958                       | 101,891,013,921     |
| General and administrative expenses (Note 31)                          |  |                       |                           |                 |                |                                      |                                    | 49,910,047,737      |
| Impairment losses and others (Note 34)                                 |  |                       |                           |                 |                |                                      |                                    | 248,080,372         |
| <b>Operating income</b>  |  |                       |                           |                 |                |                                      |                                    | 51,732,885,812      |
| Financing cost and other charges (Note 35)                             |  |                       |                           |                 |                |                                      |                                    | (7,836,137,934)     |
| Finance income (Note 27)   |  |                       |                           |                 |                |                                      |                                    | 1,243,424,967       |
| Other operating income (Note 29)                                       |  |                       |                           |                 |                |                                      |                                    | 241,871,584         |
| <b>Core earnings</b>   |  |                       |                           |                 |                |                                      |                                    | 45,382,044,429      |
| Market valuation gains (losses) on financial assets                    |  |                       |                           |                 |                |                                      |                                    | 541,176,531         |
| Foreign exchange gains (losses)  |  |                       |                           |                 |                |                                      |                                    | (902,717,961)       |
| <b>Income before income tax</b>  |  |                       |                           |                 |                |                                      |                                    | 45,020,502,999      |
| Provision for income tax (Note 38)                                     |  |                       |                           |                 |                |                                      |                                    | 5,501,468,891       |
| <b>Net income</b>  |  |                       |                           |                 |                |                                      |                                    | ₱39,519,034,108     |
| <b>Net income attributable to equity holders of the Parent Company</b> | ₱6,015,871,239                               | ₱5,316,821,268        | ₱7,338,007,677            | ₱5,991,258,470  | ₱184,325,780   | ₱4,581,345,354                       | (₱58,092,332)                      | ₱29,369,537,456     |
| <b>EBIT</b>  | ₱14,952,166,760                              | ₱10,134,278,023       | ₱8,562,414,443            | ₱6,518,388,803  | ₱355,398,353   | ₱11,210,239,430                      | ₱-                                 | ₱51,732,885,812     |
| Depreciation and amortization (Notes 15, 16, 18 and 33)                | 6,104,063,359                                | 6,839,363,607         | 3,914,114,101             | 1,697,187,358   | 285,278,308    | 96,732,527                           | -                                  | 18,936,739,260      |
| <b>EBITDA</b>  | ₱21,056,230,119                              | ₱16,973,641,630       | ₱12,476,528,544           | ₱8,215,576,161  | ₱640,676,661   | ₱11,306,971,957                      | ₱-                                 | ₱70,669,625,072     |
| <b>Other information</b>   |  |                       |                           |                 |                |                                      |                                    |                     |
| Non-cash expenses other than depreciation and amortization (Note 34):  |  |                       |                           |                 |                |                                      |                                    |                     |
| Impairment losses on receivables (Note 11)                             | ₱18,553,155                                  | ₱173,269              | ₱-                        | ₱-              | ₱217,183,385   | ₱-                                   | ₱-                                 | ₱235,909,809        |
| Inventory obsolescence and market decline (Note 12)                    | 2,870,047                                    | -                     | -                         | -               | -              | -                                    | -                                  | 2,870,047           |
| Impairment losses on other assets                                      | -  | -                     | -                         | -               | 9,300,516      | -                                    | -                                  | 9,300,516           |
|  | ₱21,423,202                                  | ₱173,269              | ₱-                        | ₱-              | ₱226,483,901   | ₱-                                   | ₱-                                 | ₱248,080,372        |

Other information on the Group's operating segments follow:

|  |  | December 31, 2019                            |                       |                           |                  |                  |                                      |                                 |                  |
|--|--|--|-----------------------|---------------------------|------------------|------------------|--------------------------------------|---------------------------------|------------------|
|  |  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals   | Banking          | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated     |
| Investments in associates and joint ventures (Note 14) |  | ₱421,625,100                                 | ₱1,221,452,018        | ₱56,653,592,667           | ₱-               | ₱13,141,546,214  | ₱93,658,009,900                      | (₱263,107,097)                  | ₱151,691,572,588 |
| Segment assets   |  | ₱168,652,989,873                             | ₱157,977,016,711      | ₱189,651,209,761          | ₱115,700,303,303 | ₱13,141,546,214  | ₱187,953,903,640                     | (₱22,767,450,825)               | ₱928,309,518,677 |
| Short-term debt (Note 23)                              |  | ₱12,595,841,120                              | ₱-                    | ₱8,491,700,000            | ₱21,524,562,580  | ₱-               | ₱11,435,306,304                      | ₱-                              | ₱54,047,410,004  |
| Long-term debt (Note 23)                               |  | ₱30,386,077,608                              | ₱57,144,521,276       | ₱34,715,272,176           | ₱22,000,000,000  | ₱-               | ₱74,689,663,647                      | ₱-                              | ₱218,935,534,707 |
| Segment liabilities                                    |  | ₱73,468,487,679                              | ₱114,441,734,821      | ₱89,573,539,283           | ₱59,620,821,793  | ₱114,081,071,846 | ₱99,227,402,926                      | (₱30,750,682,538)               | ₱519,662,375,810 |
| Capital expenditures (Notes 15 and 16)                 |  | ₱8,988,692,239                               | ₱25,570,098,817       | ₱11,500,261,557           | ₱25,199,924,879  | ₱222,320,890     | ₱667,120,902                         | ₱-                              | ₱72,148,419,284  |

|  |  | December 31, 2018                            |                       |                           |                 |                  |                                      |                                 |                  |
|--|--|--|-----------------------|---------------------------|-----------------|------------------|--------------------------------------|---------------------------------|------------------|
|  |  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking          | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated     |
| Investments in associates and joint ventures (Note 14) |  | ₱520,917,510                                 | ₱943,781,695          | ₱50,364,656,041           | ₱-              | ₱-               | ₱93,085,241,987                      | ₱-                              | ₱144,914,597,233 |
| Segment assets   |  | ₱151,935,713,410                             | ₱129,589,739,922      | ₱174,158,160,285          | ₱98,142,227,756 | ₱121,509,063,300 | ₱192,420,794,526                     | (₱48,468,683,365)               | ₱819,287,015,834 |
| Short-term debt (Note 23)                              |  | ₱8,480,998,575                               | ₱-                    | ₱896,700,000              | ₱-              | ₱-               | ₱5,062,308,755                       | ₱-                              | ₱14,440,007,330  |
| Long-term debt (Note 23)                               |  | ₱31,457,123,882                              | ₱53,797,546,261       | ₱36,488,539,001           | ₱-              | ₱-               | ₱88,505,758,204                      | ₱-                              | ₱210,248,967,348 |
| Segment liabilities                                    |  | ₱67,942,234,140                              | ₱90,905,166,290       | ₱80,238,443,780           | ₱42,975,790,820 | ₱106,163,467,794 | ₱106,145,084,629                     | (₱42,561,032,158)               | ₱451,809,155,295 |
| Capital expenditures (Notes 15 and 16)                 |  | ₱8,641,730,098                               | ₱26,030,449,395       | ₱14,083,962,187           | ₱19,870,115,618 | ₱282,544,066     | ₱37,112,569                          | (₱622,200,000)                  | ₱68,323,713,933  |

|  |  | December 31, 2017                            |                       |                           |                 |                  |                                      |                                 |                  |
|--|--|--|-----------------------|---------------------------|-----------------|------------------|--------------------------------------|---------------------------------|------------------|
|  |  | Foods,<br>Agro-Industrial<br>and Commodities | Air<br>Transportation | Real Estate<br>and Hotels | Petrochemicals  | Banking          | Other<br>Supplementary<br>Businesses | Adjustments<br>and Eliminations | Consolidated     |
| Investments in associates and joint ventures (Note 14) |  | ₱404,647,575                                 | ₱840,972,437          | ₱46,365,842,599           | ₱-              | ₱-               | ₱90,779,861,628                      | ₱-                              | ₱138,391,324,239 |
| Segment assets   |  | ₱147,493,293,568                             | ₱109,245,863,713      | ₱147,528,320,430          | ₱69,409,114,388 | ₱104,926,584,835 | ₱209,817,783,530                     | (₱49,114,026,661)               | ₱739,306,933,803 |
| Short-term debt (Note 23)                              |  | ₱5,164,505,591                               | ₱-                    | ₱15,693,400,000           | ₱5,714,393,097  | ₱-               | ₱19,275,514,773                      | ₱-                              | ₱45,847,813,461  |
| Long-term debt (Note 23)                               |  | ₱33,225,962,388                              | ₱40,982,210,752       | ₱35,661,162,154           | ₱-              | ₱-               | ₱71,817,479,372                      | ₱-                              | ₱181,686,814,666 |
| Segment liabilities                                    |  | ₱65,807,280,971                              | ₱69,761,176,242       | ₱80,155,702,670           | ₱15,302,675,696 | ₱92,833,429,203  | ₱111,870,754,089                     | (₱42,843,633,069)               | ₱392,887,385,802 |
| Capital expenditures (Notes 15 and 16)                 |  | ₱8,011,626,579                               | ₱14,776,336,747       | ₱23,851,531,485           | ₱3,090,406,047  | ₱229,685,485     | ₱104,674,277                         | (₱6,544,360,000)                | ₱43,519,900,620  |

Reconciliation of Income Before Income Tax to EBITDA and Core Earnings

|  | 2019                   | 2018            | 2017            |
|--|------------------------|-----------------|-----------------|
| Income before income tax   | <b>₱48,037,826,359</b> | ₱33,041,291,149 | ₱45,020,502,999 |
| Finance income   | <b>(2,096,212,143)</b> | (1,745,547,717) | (1,243,424,967) |
| Financing cost and other charges   | <b>10,965,846,901</b>  | 9,635,374,773   | 7,836,137,934   |
| Other operating income   | <b>764,665,540</b>     | 459,468,426     | (241,871,584)   |
| Market valuation losses (gains) on<br>financial assets at FVPL and<br>derivative financial instruments | <b>(640,533,460)</b>   | 1,019,886,441   | (541,176,531)   |
| Foreign exchange (gains) losses  | <b>(828,657,682)</b>   | 2,854,338,888   | 902,717,961     |
| EBIT   | <b>56,202,935,515</b>  | 45,264,811,960  | 51,732,885,812  |
| Depreciation and amortization  | <b>30,012,996,106</b>  | 20,567,280,014  | 18,936,739,260  |
| Reversal of impairment losses  | <b>(2,274,795,253)</b> | -               | -               |
| <b>EBITDA</b>  | <b>₱83,941,136,368</b> | ₱65,832,091,974 | ₱70,669,625,072 |
| Income before income tax   | <b>₱48,037,826,359</b> | ₱33,041,291,149 | ₱45,020,502,999 |
| Market valuation losses (gains) on<br>financial assets at FVPL and<br>derivative financial instruments | <b>(640,533,460)</b>   | 1,019,886,441   | (541,176,531)   |
| Foreign exchange losses  | <b>(828,657,682)</b>   | 2,854,338,888   | 902,717,961     |
| <b>Core earnings</b>   | <b>₱46,568,635,217</b> | ₱36,915,516,478 | ₱45,382,044,429 |

The table below presents the consolidated statement of financial position of the Group broken down between industrial and banking components:

|   | December 31, 2019       |                         | December 31, 2018       |                         |                         |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | Non-banks*              | Banks*                  | Consolidated            | Non-banks*              | Banks*                  | Consolidated            |
| <b>ASSETS</b>   |                         |                         |                         |                         |                         |                         |
| <b>Current Assets</b>   |                         |                         |                         |                         |                         |                         |
| Cash and cash equivalents   | ₱44,005,466,583         | ₱20,337,782,579         | ₱64,343,249,162         | ₱25,510,651,426         | ₱23,684,025,015         | ₱49,194,676,441         |
| Financial assets at fair value through profit and loss            | 4,379,709,088           | 4,935,882               | 4,384,644,970           | 3,642,318,380           | 8,206,143               | 3,650,524,523           |
| Financial assets at fair value through other comprehensive income | 8,286,428,203           | 13,973,461,843          | 22,259,890,046          | 10,818,456,393          | 13,097,214,483          | 23,915,670,876          |
| Receivables - net   | 23,666,187,872          | 24,046,721,951          | 47,712,909,823          | 23,189,216,734          | 20,486,136,539          | 43,675,353,273          |
| Inventories - net   | 68,513,876,509          | —                       | 68,513,876,509          | 63,472,037,028          | —                       | 63,472,037,028          |
| Biological assets - net   | 733,435,525             | —                       | 733,435,525             | 741,719,637             | —                       | 741,719,637             |
| Contract assets   | 3,007,038,670           | —                       | 3,007,038,670           | 5,088,356,660           | —                       | 5,088,356,660           |
| Other current assets  | 23,075,658,715          | 124,975,863             | 23,200,634,578          | 24,437,130,173          | 129,469,039             | 24,566,599,212          |
| <b>Total current assets</b>                                       | <b>175,667,801,165</b>  | <b>58,487,878,118</b>   | <b>234,155,679,283</b>  | <b>156,899,886,431</b>  | <b>57,405,051,219</b>   | <b>214,304,937,650</b>  |
| <b>Noncurrent Assets</b>  |                         |                         |                         |                         |                         |                         |
| Financial assets at fair value through other comprehensive income | 24,050,346,528          | —                       | 24,050,346,528          | 19,457,411,625          | —                       | 19,457,411,625          |
| Receivables - noncurrent  | 3,677,362,062           | 57,236,185,738          | 60,913,547,800          | 1,432,956,759           | 48,418,529,405          | 49,851,486,164          |
| Investments at amortized cost                                     | —                       | 11,357,261,241          | 11,357,261,241          | —                       | 12,597,089,717          | 12,597,089,717          |
| Investments in associates and JVs - net                           | 151,691,572,588         | —                       | 151,691,572,588         | 144,914,597,233         | —                       | 144,914,597,233         |
| Investment properties - net                                       | 98,617,891,032          | 382,355,004             | 99,000,246,036          | 93,475,897,324          | 341,073,551             | 93,816,970,875          |
| Contract assets   | 7,843,135,383           | —                       | 7,843,135,383           | 6,444,995,326           | —                       | 6,444,995,326           |
| Property, plant and equipment - net                               | 258,325,525,374         | 917,291,590             | 259,242,816,964         | 217,650,662,391         | 622,992,836             | 218,273,655,227         |
| Right-of-use assets   | 20,140,084,838          | 391,336,459             | 20,531,421,297          | —                       | —                       | —                       |
| Biological assets   | 224,128,072             | —                       | 224,128,072             | 366,184,414             | —                       | 366,184,414             |
| Goodwill - net  | 31,761,277,350          | 244,327,006             | 32,005,604,356          | 31,761,277,350          | 244,327,006             | 32,005,604,356          |
| Intangibles - net   | 12,598,588,522          | 1,299,801,877           | 13,898,390,399          | 12,627,557,949          | 1,327,066,643           | 13,954,424,592          |
| Other noncurrent assets   | 12,570,259,549          | 825,109,181             | 13,395,368,730          | 12,746,725,732          | 552,932,923             | 13,299,658,655          |
| <b>Total Noncurrent Assets</b>                                    | <b>621,500,171,298</b>  | <b>72,653,668,096</b>   | <b>694,153,839,394</b>  | <b>540,878,066,103</b>  | <b>64,104,012,081</b>   | <b>604,982,078,184</b>  |
|   | <b>₱797,167,972,463</b> | <b>₱131,141,546,214</b> | <b>₱928,309,518,677</b> | <b>₱697,777,952,534</b> | <b>₱121,509,063,300</b> | <b>₱819,287,015,834</b> |

\*Balances are after elimination of intercompany balances between industrial and banking components

|   | December 31, 2019 |                  |                  | December 31, 2018 |                  |                  |
|---|-------------------|------------------|------------------|-------------------|------------------|------------------|
|   | Non-banks*        | Banks*           | Consolidated     | Non-banks*        | Banks*           | Consolidated     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>           |                   |                  |                  |                   |                  |                  |
| <b>Current liabilities</b>                            |                   |                  |                  |                   |                  |                  |
| Accounts payable and accrued expenses                 | ₱59,307,013,927   | ₱87,020,357,930  | ₱146,327,371,857 | ₱55,995,766,742   | ₱76,660,068,675  | ₱132,655,835,417 |
| Short-term debt                                       | 54,047,410,004    | —                | 54,047,410,004   | 35,453,723,993    | —                | 35,453,723,993   |
| Current portion of long-term debt                     | 6,819,093,642     | —                | 6,819,093,642    | 30,962,269,832    | —                | 30,962,269,832   |
| Derivative liabilities                                | 418,640,661       | 462,908          | 419,103,569      | 585,770,498       | 336,698          | 586,107,196      |
| Contract liabilities                                  | 14,184,663,585    | —                | 14,184,663,585   | 12,931,513,843    | —                | 12,931,513,843   |
| Income tax payable                                    | 1,768,570,932     | 2,700,053        | 1,771,270,985    | 1,775,407,604     | 1,365,637        | 1,776,773,241    |
| Other current liabilities                             | 21,569,617,633    | 410,100          | 21,570,027,733   | 15,052,570,233    | 383,700          | 15,052,953,933   |
| Total current liabilities                             | 158,115,010,384   | 87,023,930,991   | 245,138,941,375  | 152,757,022,745   | 76,662,154,710   | 229,419,177,455  |
| <b>Noncurrent liabilities</b>                         |                   |                  |                  |                   |                  |                  |
| Long-term debt - net of current portion               | 212,116,441,065   | —                | 212,116,441,065  | 179,286,697,516   | —                | 179,286,697,516  |
| Deferred tax liabilities - net                        | 8,318,082,154     | —                | 8,318,082,154    | 7,877,223,942     | —                | 7,877,223,942    |
| Contract liabilities                                  | 2,958,482,166     | —                | 2,958,482,166    | 2,378,690,953     | —                | 2,378,690,953    |
| Other noncurrent liabilities                          | 28,641,464,191    | 22,488,964,859   | 51,130,429,050   | 13,683,739,481    | 19,163,625,948   | 32,847,365,429   |
| Total noncurrent liabilities                          | 252,034,469,576   | 22,488,964,859   | 274,523,434,435  | 203,226,351,892   | 19,163,625,948   | 222,389,977,840  |
| Total Liabilities                                     | 410,149,479,960   | 109,512,895,850  | 519,662,375,810  | 355,983,374,637   | 95,825,780,658   | 451,809,155,295  |
| <b>Stockholders' equity</b>                           | 294,575,357,898   | 10,236,284,621   | 304,811,642,519  | 267,378,513,527   | 9,207,357,303    | 276,585,870,830  |
| <b>Minority interest in consolidated subsidiaries</b> | 97,011,310,601    | 6,824,189,747    | 103,835,500,348  | 84,753,751,506    | 6,138,238,203    | 90,891,989,709   |
|   | ₱801,736,148,459  | ₱126,573,370,218 | ₱928,309,518,677 | ₱708,115,639,670  | ₱111,171,376,164 | ₱819,287,015,834 |

\*Balances are after elimination of intercompany balances between industrial and banking components

### Intersegment Revenues

Intersegment revenues are eliminated at the consolidation level.

### Segment Results

Segment results pertain to the net income (loss) of each of the operating segments adjusted by the subsequent take up of significant transactions of operating segments with fiscal year-end and the capitalization of borrowing costs at the consolidated level for qualifying assets held by a certain subsidiary. The chief decision maker also uses the 'Core earnings', 'EBIT' and 'EBITDA' in measuring the performance of each of the Group's operating segments. The Group defines each of the operating segment's 'Core earnings' as the total of the 'Operating income', 'Finance income' and 'Other operating income' deducted by the 'Financing cost and other charges'. EBIT is equivalent to the Group's operating income while EBITDA is computed by adding back to the EBIT the depreciation and amortization expenses during the period. Depreciation and amortization include only the depreciation and amortization of plant and equipment, investment properties and intangible assets.

### Depreciation and amortization

In 2019, 2018 and 2017, the amount of reported depreciation and amortization includes depreciation for investment properties and property, plant and equipment, and amortization of intangible assets.

### Segment Assets

Segment assets are resources owned by each of the operating segments with the exclusion of intersegment balances, which are eliminated, and adjustment of significant transactions of operating segment with fiscal year-end.

### Segment Liabilities

Segment liabilities are obligations incurred by each of the operating segments excluding intersegment balances which are eliminated. The Group also reports, separately, to the chief operating decision maker the breakdown of the short-term and long-term debt of each of the operating segments.

### Capital Expenditures

The components of capital expenditures reported to the chief operating decision maker are the acquisitions of investment property and property, plant and equipment during the period, including those acquired through business combination.

### Geographical Information

The Group operates in the Philippines, Thailand, Malaysia, Indonesia, China, Hong Kong, Singapore, Vietnam, Myanmar, New Zealand and Australia.

The following table shows the distribution of the Group's consolidated revenues to external customers by geographical market, regardless of where the goods were produced:

|          | 2019                    | 2018             | 2017             |
|----------|-------------------------|------------------|------------------|
| Domestic | <b>₱205,285,144,077</b> | ₱191,174,505,599 | ₱177,183,896,798 |
| Foreign  | <b>96,537,425,094</b>   | 100,741,512,064  | 96,261,558,109   |
|          | <b>₱301,822,569,171</b> | ₱291,916,017,663 | ₱273,445,454,907 |

The Group has no significant customer which contributes 10.0% or more of the consolidated revenues of the Group.

The table below shows the Group's carrying amounts of noncurrent assets per geographic location excluding noncurrent financial assets, deferred tax assets and pension assets:

|          | 2019                    | 2018                    |
|----------|-------------------------|-------------------------|
| Domestic | ₱466,450,667,764        | ₱400,084,128,785        |
| Foreign  | 119,815,104,673         | 113,164,190,898         |
|          | <b>₱586,265,772,437</b> | <b>₱513,248,319,683</b> |

## 7. Cash and Cash Equivalents

This account consists of:

|                            | 2019                   | 2018                   |
|----------------------------|------------------------|------------------------|
| Cash on hand               | ₱3,410,774,679         | ₱2,529,042,588         |
| Cash in banks (Note 40)    | 28,576,315,526         | 26,297,373,536         |
| Cash equivalents (Note 40) | 32,356,158,957         | 20,368,260,317         |
|                            | <b>₱64,343,249,162</b> | <b>₱49,194,676,441</b> |

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents represent money market placements made for varying periods depending on the immediate cash requirements of the Group, and earn annual interest ranging from 0.05% to 7.5%, from 0.01% to 6.5% and from 0.05% to 6.50% in 2019, 2018 and 2017, respectively (Note 27).

## 8. Derivative Financial Instruments

The tables below show the fair value of the Group's outstanding derivative financial instruments, reported as assets or liabilities, together with their notional amounts as of December 31, 2019 and 2018. The notional amount is the basis upon which changes in the value of derivatives are measured.

|   | December 31, 2019              |                       |  |  |
|---|--------------------------------|-----------------------|--|--|
|   | Notional Amounts (in Millions) |                       | Derivative<br>Assets<br>(Notes 9 and 13) | Derivative<br>Liabilities<br>(Notes 22 and 24) |
|   | Japanese Yen                   | New Zealand<br>Dollar |  |  |
| <b>Derivatives Not Designated as Accounting Hedges (Notes 9 and 22)</b>   |                                |                       |  |  |
| Freestanding:   |                                |                       |  |  |
| Call option   |                                | US\$6.04              | ₱-                                       | ₱305,835,400                                   |
| Foreign currency swaps  | JPY9.14                        |                       | 992,618                                  | 462,908  |
|   |                                |                       | <b>₱992,618</b>                          | <b>₱306,298,308</b>                            |
| <b>Derivatives Designated as Accounting Hedges (Note 13)</b>              |                                |                       |  |  |
| Zero cost collars and commodity swaps*                                    |                                | US\$165.0             | ₱-                                       | ₱126,312,502                                   |
|   |                                |                       | <b>₱-</b>                                | <b>₱126,312,502</b>                            |
| <b>Presented in the consolidated statements of financial position as:</b> |                                |                       |  |  |
| Current   |                                |                       | ₱992,618                                 | ₱419,103,569                                   |
| Noncurrent  |                                |                       | ₱-                                       | ₱13,507,241                                    |

\*Notional quantity amounted to 1,980,000 US barrels as of December 31, 2019

|   | December 31, 2018              |                    |                  |                       |
|---|--------------------------------|--------------------|------------------|-----------------------|
|   | Notional Amounts (in Millions) |                    | Derivative       | Derivative            |
|   | Japanese Yen                   | New Zealand Dollar | Assets (Note 13) | Liabilities (Note 24) |
| <b>Derivatives Not Designated as Accounting Hedges</b> (Notes 9 and 22)   |                                |                    |                  |                       |
| Freestanding:   |                                |                    |                  |                       |
| Zero cost collars*  |                                |                    | ₱-               | ₱762,985,362          |
| Foreign currency swaps  | JPY0.54                        |                    | -                | 336,698               |
|   |                                |                    | ₱-               | ₱763,322,060          |
| <b>Derivatives Designated as Accounting Hedges</b> (Note 13)              |                                |                    |                  |                       |
| Currency options  |                                | NZ\$28.20          | ₱6,389,048       | ₱-                    |
|   |                                |                    | ₱6,389,048       | ₱-                    |
| <b>Presented in the consolidated statements of financial position as:</b> |                                |                    |                  |                       |
| Current (Note 22)   |                                |                    | ₱6,389,048       | ₱586,107,196          |
| Noncurrent  |                                |                    | ₱-               | ₱177,214,864          |

\*Notional quantity amounted to 2,100,000 US barrels as of December 31, 2018

#### *Derivatives not designated as accounting hedges*

The Group's derivatives not designated as accounting hedges include transactions to take positions for risk management purpose.

- Zero cost collars and commodity swaps

CAI enters into zero cost collars and commodity swaps derivative contracts to manage its exposure to fuel price fluctuations. Such fuel derivatives are not designated as accounting hedges until September 30, 2019.

The gains or losses on derivatives not designated for hedge accounting are accounted directly as charges against or credit to profit or loss whereas for designated hedges, effective portion identified under PFRS 9 hedge accounting are recognized as other comprehensive income or loss. Hedge ineffectiveness is recognized directly to profit or loss. As of December 31, 2019 and 2018, CAI has outstanding fuel hedging transactions. The notional quantity is the amount of the derivatives' underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. The collars have various maturity dates through 2019 until 2021.

In 2019, CAI recognized changes in fair value of derivatives totaling to ₱772.1 million net gain, of which ₱256.8 million net gain is attributable to the effective portion of accounting hedges directly recognized in other comprehensive income as 'Net gains (losses) from cash flow hedges'.

In 2018 and 2017, CAI recognized net changes in fair value of derivatives amounting to ₱289.0 million loss and ₱135.9 million loss, respectively. These are recognized under 'Market valuation gains (losses) on derivative financial instruments' account in the consolidated statements of comprehensive income.

- **Foreign currency forwards**  
In 2019, 2018 and 2017, CAI entered into foreign currency forwards and recognized net changes in fair value of derivatives in profit or loss amounting to ₱560.9 million loss, ₱33.6 million loss and ₱3.3 million gain, respectively. The realized gain is recognized under 'Market valuation gains (losses) on derivative financial instruments - net' account in the consolidated statements of comprehensive income.
- **Foreign currency swaps**  
RBC entered into foreign currency swap transactions with positive fair values of ₱0.5 million as of December 31, 2019, and negative fair values of ₱0.3 million as of December 31, 2018. In 2019, 2018 and 2017, RBC recognized net changes in fair value of derivatives amounting to ₱45.0 million gain, ₱1.5 million loss and ₱15.3 million gain, respectively.
- **Call Option**  
As part of change in ownership of URC Oceania Group, Intersnack was also given an option to acquire an additional 9% equity share in UHC. The call option has a fair value of ₱305.8 million as of December 31, 2019.

#### *Derivatives designated as accounting hedges*

As part of its asset and liability management, the Group uses derivatives, particularly interest rate swaps and currency options, as cash flow hedges in order to reduce its exposure to market risks that is achieved by hedging portfolios of floating rate financial instruments.

The accounting treatment explained in Note 2 to the consolidated financial statements, *Hedge Accounting*, varies according to the nature of the hedged item and compliance with the hedge criteria. Hedges entered into by the Group which provide economic hedges but do not meet the hedge accounting criteria are included under derivatives not designated as accounting hedges.

- **Currency options**  
URC entered into currency options with a total notional amount of NZD28.2 million and initial fair value of ₱7.5 million. URC recognized unrealized loss in other comprehensive income under 'Net gains (losses) from cash flow hedges' amounting to ₱4.6 million, ₱3.3 million and ₱11.4 million in 2019, 2018 and 2017. URC made a settlement of ₱4.6 million in 2019 for the related derivatives.
- **Zero cost collars and commodity swaps**  
CAI's fuel derivatives designated as accounting hedges have a negative fair value of ₱126.3 million as of December 31, 2019. CAI recognized changes in fair value of derivatives amounting to ₱256.8 million net gain attributable to the effective portion of accounting hedges in other comprehensive income as 'Net gains (losses) from cash flow hedges'.

#### Hedge Effectiveness Results

The hedge is assessed to be effective as the critical terms of the hedging instrument match the terms of the hedged item.

Fair value changes in derivatives

*Fair value changes of derivatives designated as accounting hedges*

The net movements in fair value of the Group's derivative financial instruments designated as accounting hedges follow:

|  | 2019                  | 2018        |
|--|-----------------------|-------------|
| Beginning balance  | <b>₱6,389,048</b>     | ₱11,023,146 |
| Net changes shown in other comprehensive income (Note 36):                   |                       |             |
| Net changes in fair value of derivatives taken to other comprehensive income | <b>175,171,778</b>    | (3,336,553) |
| Fair value of settled instruments  | <b>(307,873,328)</b>  | (1,297,545) |
|  | <b>(₱126,312,502)</b> | ₱6,389,048  |

Net changes in fair value of derivatives taken to other comprehensive income are recorded under 'Net gains (losses) from cash flow hedges' in the consolidated statement of comprehensive income.

*Fair value changes of derivatives not designated as accounting hedges*

The net movements in fair value of the Group's derivative financial instruments not designated as accounting hedges follow:

|  | 2019                  | 2018           |
|--|-----------------------|----------------|
| Balance at beginning of year:  |                       |                |
| Derivative assets  | <b>₱-</b>             | ₱467,897,681   |
| Derivative liabilities   | <b>763,322,060</b>    | 5,904,377      |
|  | <b>(763,322,060)</b>  | 461,993,304    |
| Net losses from changes in fair value of derivatives taken to profit or loss | <b>(18,307,172)</b>   | (338,299,836)  |
| Fair value of settled instruments  | <b>476,323,542</b>    | (887,015,528)  |
|  | <b>(₱305,305,690)</b> | (₱763,322,060) |
| Balance at end of year:  |                       |                |
| Derivative assets (Note 9)   | <b>₱992,618</b>       | ₱-             |
| Derivative liabilities (Note 8)  | <b>306,298,308</b>    | 763,322,060    |

The net changes in fair value of derivatives taken to profit or loss are included under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statements of comprehensive income, except for the foreign currency swaps of RBC, where the net changes in fair value are taken to profit or loss under 'Trading and securities gains' (see Note 26).

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**9. Financial Assets at Fair Value through Profit or Loss**

This account consists of the following:

|                  | 2019              | 2018        |
|------------------|-------------------|-------------|
| Debt securities: |                   |             |
| Government       | <b>₱3,943,264</b> | ₱8,206,143  |
| Private          | -                 | 140,329,354 |
|                  | <b>3,943,264</b>  | 148,535,497 |

(Forward)

|                                 | 2019                  | 2018           |
|---------------------------------|-----------------------|----------------|
| Equity securities:              |                       |                |
| Quoted                          | <b>₱1,718,536,973</b> | ₱1,695,903,197 |
| Investment in convertible notes | <b>2,661,172,115</b>  | 1,806,085,829  |
| Derivatives (Note 8)            | <b>992,618</b>        | –              |
|                                 | <b>₱4,384,644,970</b> | ₱3,650,524,523 |

*Sea Limited*

On April 13, 2017, JGSPL invested in a convertible note from Sea Limited in the amount of US\$25.0 million (or ₱1.3 billion). The Principal Amount excluding any accrued and unpaid interest may be converted into fully paid and non-assessable voting ordinary shares of Sea Limited.

In 2019, the note was converted into 1,834,188 ordinary shares of Sea Limited which was then sold for a total price of US\$43.7 million, resulting in realized market valuation gain of US\$10.9 million (₱566.6 million). As of December 31, 2018, unrealized gain on the investment in convertible note amounted to ₱0.3 billion.

*Oriente*

On December 14, 2018, JGDEV entered into a Securities Exchange Agreement with ORT Philippines Holdings Pte. Ltd. (ORT Philippines), wherein JGDEV sold to the latter all its shares (including deposit for future subscription) in Oriente Techsystem Philippines Corporation (OETC) and Paloo Financing Inc. (Paloo). Also, ORT Philippines transferred to JGDEV 6,627,087 Series A-2 Preferred shares of Oriente Finance Group Limited (OFGL) and a convertible note with a face value of \$1.975 million. As of December 31, 2018, the convertible note of OFGL is classified under financial assets at fair value through profit or loss while the preferred shares are classified under financial assets at FVOCI. In 2018, the Group recorded gain from the disposal of its investment in OETC and Paloo amounting to ₱198.1 million.

On December 5, 2019, the convertible note with face value of \$1.975 million was converted to 819,641 Series B-1 preferred shares. As of December 31, 2019, Series A-2 and Series B-1 preferred shares are classified under financial assets at FVOCI (see Note 10).

*JUUL Labs, Inc*

In August 2019, JGSPL invested in USD50.0 million Convertible Notes of JUUL Labs, Inc. (“JUUL Labs”). JUUL Labs is a private company based in California, USA, which is in the business of manufacturing and distributing e-cigarettes.

The Convertible Notes have the following features:

1. Repayable after 5 years;
2. 7% p.a. coupon accruing and compounding quarterly paid in kind thru increase in the outstanding principal (“Accreted principal”);
3. Conversion into class of shares (or mix thereof) as specified in paragraph 1.12 of the Note Purchase Agreement;
4. Conversion can be:
  - a. Automatic in the event of any of the following qualified financing events (e.g., qualified private financing, qualified IPO and qualified direct listing), with conversion price determined as the higher of the valuation floor and lower of valuation cap and discounted valuation in the financing event; or

- b. Optional (i) in the event of financing events whereby conditions for qualification were not met, and in that case the conversion price is determined using the basis in (a) above; (ii) upon JUUL Labs' direct listing or starting on the 24th month anniversary, and in such cases the conversion price is the valuation cap; and (iii) when exercised on maturity date and the conversion price is USD30.4 million; and
5. Early redemption at the option of JUUL Labs but subject to the consent of majority investors or one (1) owner provided the Issuer offered the same terms to other investors. The redemption price should not be less than the accreted principal as of the redemption date.

*Snapcart Group (HK) Limited*

On March 5, 2019, JGDEV entered into a Deed of Adherence with Snapcart Group (HK) Limited pursuant to the Convertible Loan Agreement entered into in February 20, 2019. The consideration is for a loan amount of \$1.0 million at a rate of 3% interest per annum. The convertible loan was set to mature on December 20, 2019 but subsequently amended to extend maturity to March 31, 2020. The convertible note is classified under financial assets at fair value through profit and loss.

*Zuzu Hospitality Solutions Pte. Ltd.*

On September 10, 2019, JGDCPL entered into a Note Purchase Agreement with Zuzu Hospitality Solutions Pte. Ltd. (Zuzu Hospitality) to invest in a Convertible Note amounting to SGD1 million. Zuzu Hospitality is a private company incorporated and based in Singapore that offers outsourced revenue management to independent hotels. Zuzu Hospitality currently operates in Indonesia and Taiwan.

As of December 31, 2019, 2018 and 2017, unrealized loss on debt securities recognized amounted to ₱9.2 million, ₱264.0 million and ₱157.7 million, respectively.

As of December 31, 2019, 2018 and 2017, unrealized gain (loss) on equity securities recognized amounted to ₱713.1 million, (₱419.1 million) and (₱95.7 million), respectively.

In 2019, 2018 and 2017, the Group recognized net market valuation gains (losses) on financial assets at FVPL (excluding derivatives) amounting to ₱703.9 million, (₱683.1 million) and ₱696.4 million, respectively, included under 'Market valuation gains (losses) on financial assets at fair value through profit or loss' in the consolidated statements of comprehensive income.

Interest income on financial assets at FVPL consists of (see Note 27):

|                  | 2019                | 2018         | 2017         |
|------------------|---------------------|--------------|--------------|
| Debt securities: |                     |              |              |
| Private          | <b>₱87,690,303</b>  | ₱474,106,446 | ₱536,802,342 |
| Government       | <b>13,181,655</b>   | 130,079,434  | 113,969,006  |
|                  | <b>₱100,871,958</b> | ₱604,185,880 | ₱650,771,348 |

## 10. Investment Securities

### Financial Assets at Fair Value through Other Comprehensive Income

As at December 31, 2019, this account consists of investments in:

|                    | 2019                   | 2018            |
|--------------------|------------------------|-----------------|
| Debt securities:   |                        |                 |
| Government         | <b>₱9,392,806,983</b>  | ₱10,273,311,521 |
| Private            | <b>11,902,368,238</b>  | 12,964,659,358  |
|                    | <b>21,295,175,221</b>  | 23,237,970,879  |
| Equity securities: |                        |                 |
| Quoted             | <b>24,528,006,195</b>  | 19,878,902,835  |
| Unquoted           | <b>487,055,158</b>     | 256,208,787     |
|                    | <b>25,015,061,353</b>  | 20,135,111,622  |
|                    | <b>₱46,310,236,574</b> | ₱43,373,082,501 |

Breakdown of financial assets at FVOCI as shown in the consolidated statements of financial position follows:

|                    | 2019                   | 2018            |
|--------------------|------------------------|-----------------|
| Current portion    | <b>₱22,259,890,046</b> | ₱23,915,670,876 |
| Noncurrent portion | <b>24,050,346,528</b>  | 19,457,411,625  |
|                    | <b>₱46,310,236,574</b> | ₱43,373,082,501 |

The Group has classified its 17.3 million PLDT shares representing 8.0% ownership interest and the additional ownership interest equivalent to 3.3% through the acquisition of American Depositary Receipts (ADRs) in December 2019 as financial assets at FVOCI, which have carrying values of ₱24.1 billion and ₱19.5 billion as of December 31, 2019 and 2018, respectively. The ADRs were converted into 7.0 million PLDT common shares in January 2020.

Interest income on debt financial assets at FVOCI/AFS debt securities follows (Note 27):

|                  | 2019                  | 2018         | 2017         |
|------------------|-----------------------|--------------|--------------|
| Debt securities: |                       |              |              |
| Private          | <b>₱664,109,167</b>   | ₱374,775,163 | ₱370,841,736 |
| Government       | <b>363,288,259</b>    | 448,401,992  | 458,963,998  |
|                  | <b>₱1,027,397,426</b> | ₱823,177,155 | ₱829,805,734 |

The range of the Group's effective interest rates on government securities are as follows:

|   | 2019               | 2018        | 2017        |
|---|--------------------|-------------|-------------|
| Peso-denominated securities             | <b>5.75%-8.00%</b> | 3.62%-7.20% | 1.38%-5.19% |
| Foreign currency-denominated securities | <b>4.75%-7.75%</b> | 3.16%-6.47% | 2.75%-5.18% |

The range of the Group's effective interest rates on the private bonds are as follows:

|   | 2019               | 2018        | 2017        |
|---|--------------------|-------------|-------------|
| Peso-denominated securities             | <b>4.20%-6.49%</b> | 4.20%-7.82% | 3.90%-6.63% |
| Foreign currency-denominated securities | <b>4.38%-7.38%</b> | 4.01%-6.02% | 3.86%-5.90% |

The movements in net unrealized gains (losses) on financial assets at FVOCI follow:

|  | 2019              |                           |                   |
|--|-------------------|---------------------------|-------------------|
|  | Parent Company    | Non-controlling Interests | Total             |
| Balance at beginning of year   | (₱22,647,670,192) | (₱204,920,170)            | (₱22,852,590,362) |
| Net changes shown in other comprehensive income (Note 36):   |                   |                           |                   |
| Fair value changes during the period on financial assets at FVOCI of the Parent Company and its subsidiaries | (1,083,397,384)   | 454,489,410               | (628,907,974)     |
| Realized gain on sale of financial assets at FVOCI (Note 29)   | (277,810,114)     | –                         | (277,810,114)     |
|  | (24,008,877,690)  | 249,569,240               | (23,759,308,450)  |
| Share in net changes in fair value of financial assets at FVOCI of an associate (Note 14)                    | 176,256,150       | –                         | 176,256,150       |
| Balance at end of year   | (₱23,832,621,540) | ₱249,569,240              | (₱23,583,052,300) |
|  |                   |                           |                   |
|  | 2018              |                           |                   |
|  | Parent Company    | Non-controlling Interests | Total             |
| Balance at beginning of year, as previously reported   | ₱–                | ₱–                        | ₱–                |
| Effect of adoption of PFRS 9   | (14,954,413,164)  | 181,701,765               | (14,772,711,399)  |
| Balance at January 1, 2018, as restated  | (14,954,413,164)  | 181,701,765               | (14,772,711,399)  |
| Net changes shown in other comprehensive income (Note 36):   |                   |                           |                   |
| Fair value changes during the period on financial assets at FVOCI of the Parent Company and its subsidiaries | (7,517,643,934)   | (386,621,935)             | (7,904,265,869)   |
| Realized gain on sale of financial assets at FVOCI (Note 29)   | (34,208,528)      | –                         | (34,208,528)      |
|  | (22,506,265,626)  | (204,920,170)             | (22,711,185,796)  |
| Share in net changes in fair value of financial assets at FVOCI of an associate (Note 14)                    | (141,404,566)     | –                         | (141,404,566)     |
| Balance at end of year   | (₱22,647,670,192) | (₱204,920,170)            | (₱22,852,590,362) |
|  |                   |                           |                   |
|  | 2017              |                           |                   |
|  | Parent Company    | Non-controlling Interests | Total             |
| Balance at beginning of year   | (₱596,224,679)    | (₱119,301,795)            | (₱715,526,474)    |
| Net changes shown in other comprehensive income (Note 36):   |                   |                           |                   |
| Fair value changes during the period on AFS investments of the Parent Company and its subsidiaries           | 1,855,132,262     | (80,951,614)              | 1,774,180,648     |
| Realized gain on sale of AFS investments (Note 29)   | (14,747,467)      | –                         | (14,747,467)      |
|  | 1,840,384,795     | (80,951,614)              | 1,759,433,181     |
| Share in net changes in fair value of AFS investments of an associate (Note 14)                              | 24,394,385        | –                         | 24,394,385        |
| Balance at end of year   | ₱1,268,554,501    | (₱200,253,409)            | ₱1,068,301,092    |

### Investment Securities at Amortized Cost

The investment securities at amortized cost of the Group consist of the following:

|                                      | 2019            | 2018            |
|--------------------------------------|-----------------|-----------------|
| Government securities                | ₱9,507,201,849  | ₱10,673,679,979 |
| Private bonds                        | 1,850,398,340   | 1,923,410,533   |
|                                      | 11,357,600,189  | 12,597,090,512  |
| Less allowance for impairment losses | (338,948)       | (795)           |
|                                      | ₱11,357,261,241 | ₱12,597,089,717 |

The effective interest rates for peso-denominated investment securities at amortized cost of the Group ranges from 3.25% to 8.13% and 2.08% to 6.00% in 2019 and 2018, respectively. The effective interest rates for foreign currency-denominated investment securities at amortized cost of the Group is 2.75% in 2019 and from 2.76% to 5.31% 2018, respectively.

Interest income on Investment securities at amortized cost/HTM investments amounted to ₱486.1 million, ₱364.3 million and nil in 2019, 2018 and 2017, respectively (see Note 27).

## 11. Receivables

This account consists of:

|                                      | 2019                    | 2018            |
|--------------------------------------|-------------------------|-----------------|
| Finance receivables                  | <b>₱79,837,553,053</b>  | ₱67,862,863,368 |
| Trade receivables                    | <b>22,032,153,564</b>   | 21,279,464,748  |
| Due from related parties (Note 40)   | <b>2,547,714,785</b>    | 1,574,492,811   |
| Interest receivable                  | <b>1,180,129,554</b>    | 1,005,296,837   |
| Other receivables                    | <b>4,718,742,439</b>    | 3,429,658,825   |
|                                      | <b>110,316,293,395</b>  | 95,151,776,589  |
| Less allowance for impairment losses | <b>1,689,835,772</b>    | 1,624,937,152   |
|                                      | <b>₱108,626,457,623</b> | ₱93,526,839,437 |

Total receivables shown in the consolidated statements of financial position follow:

|                    | 2019                    | 2018            |
|--------------------|-------------------------|-----------------|
| Current portion    | <b>₱47,712,909,823</b>  | ₱43,675,353,273 |
| Noncurrent portion | <b>60,913,547,800</b>   | 49,851,486,164  |
|                    | <b>₱108,626,457,623</b> | ₱93,526,839,437 |

Noncurrent receivables consist of:

|                          | 2019                   | 2018            |
|--------------------------|------------------------|-----------------|
| Finance receivables      | <b>₱57,236,185,738</b> | ₱48,418,529,405 |
| Trade receivables        | <b>2,347,362,062</b>   | 1,432,956,759   |
| Due from related parties | <b>1,330,000,000</b>   | -               |
|                          | <b>₱60,913,547,800</b> | ₱49,851,486,164 |

### Finance Receivables

Breakdown of finance receivables, which represent receivables from customers of RBC and its subsidiary, follows:

|                                      | 2019                   | 2018            |
|--------------------------------------|------------------------|-----------------|
| Receivables from customers:          |                        |                 |
| Commercial                           | <b>₱49,514,835,477</b> | ₱44,523,131,007 |
| Real estate                          | <b>19,328,435,011</b>  | 14,376,289,958  |
| Consumption                          | <b>10,827,271,508</b>  | 8,545,058,560   |
| Domestic bills purchased             | <b>495,192,826</b>     | 834,447,716     |
|                                      | <b>80,165,734,822</b>  | 68,278,927,241  |
| Less unearned interest and discounts | <b>328,181,769</b>     | 416,063,873     |
|                                      | <b>₱79,837,553,053</b> | ₱67,862,863,368 |

Interest income on finance receivables included under 'Banking revenue' in profit or loss in the consolidated statements of comprehensive income, consists of (see Notes 26 and 27):

|                             | 2019                  | 2018           | 2017           |
|-----------------------------|-----------------------|----------------|----------------|
| Receivables from customers: |                       |                |                |
| Commercial                  | <b>₱3,173,161,721</b> | ₱2,488,181,208 | ₱1,691,903,926 |
| Consumption                 | <b>1,806,095,578</b>  | 1,334,075,467  | 1,016,984,816  |
| Real estate                 | <b>1,076,020,078</b>  | 741,540,449    | 480,287,737    |
| Domestic bills purchased    | <b>459,690</b>        | 278,928        | 304,453        |
| Others                      | <b>6,703,541</b>      | 6,224,286      | 4,705,429      |
|                             | <b>₱6,062,440,608</b> | ₱4,570,300,338 | ₱3,194,186,361 |

Others consist of sales contract receivables and lease receivables.

Restructured receivables which do not meet the BSP requirements to be treated as performing receivables shall be considered as nonperforming loans. Restructured receivables as of December 31, 2019 and 2018 amounted to ₱247.8 million and ₱247.6 million, respectively.

#### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group amounting to ₱1.3 billion and ₱1.1 billion as of December 31, 2019 and 2018. These are collectible in monthly installments over a period of between one year to ten years. These are carried at amortized cost, except for receivables from lease-to-own arrangements which are carried at fair value through OCI. The title of the real estate property, which is the subject of the installment contract receivable due beyond 12 months, passes to the buyer once the receivable is fully paid. The Group records any excess of progress of work over the right to an amount of consideration that is unconditional as contract asset. Revenue from real estate and hotels includes interest income earnings from installment contract receivables amounting to ₱0.3 billion, ₱0.9 billion and ₱1.7 billion in 2019, 2018 and 2017 respectively, and is recorded under 'Sale of goods and service' on the consolidated statements of comprehensive income.

Other trade receivables are noninterest-bearing and generally have 30 to 90-day terms.

#### Others

Other receivables include claims receivables, advances to brokers and other non-trade receivables. As of December 31, 2019 and 2018 claims receivables amounted to ₱1.1 billion and ₱0.6 billion, respectively.

#### Allowance for Impairment Losses on Receivables

Changes in the allowance for impairment losses on receivables follow:

|   | 2019                |                       |                     |                       | 2018              |                     |                   |                 |
|---|---------------------|-----------------------|---------------------|-----------------------|-------------------|---------------------|-------------------|-----------------|
|   | Trade Receivables   | Finance Receivables   | Other Receivables   | Total                 | Trade Receivables | Finance Receivables | Other Receivables | Total           |
| Balance at beginning, as adjusted         | <b>₱279,302,415</b> | <b>₱965,785,839</b>   | <b>₱379,848,898</b> | <b>₱1,624,937,152</b> | ₱555,449,421      | ₱885,434,422        | ₱3,262,973,870    | ₱4,703,857,713  |
| Provision for impairment losses (Note 34) | 5,674               | 126,554,564           | 7,087,510           | 133,647,748           | 17,774,108        | 83,887,054          | 15,688,527        | 117,349,689     |
| Written-off                               | -                   | -                     | (2,206,477)         | (2,206,477)           |                   |                     |                   |                 |
| Unrealized foreign exchange gains (loss)  | (56,539)            | -                     | (2,280,185)         | (2,336,724)           | 1,981,496         | -                   | -                 | 1,981,496       |
| Reclassification/Others                   | (80,530,316)        | (77,639,736)          | 93,964,125          | (64,205,927)          | (295,902,610)     | (3,535,637)         | (2,898,813,499)   | (3,198,251,746) |
| Balance at end of year                    | <b>₱198,721,234</b> | <b>₱1,014,700,667</b> | <b>₱476,413,871</b> | <b>₱1,689,835,772</b> | ₱279,302,415      | ₱965,785,839        | ₱379,848,898      | ₱1,624,937,152  |

Provision for impairment losses on receivables for the years ended December 31, 2019, 2018 and 2017 amounted to ₱133.6 million, ₱117.3 million and ₱231.2 million, respectively.

Allowance for credit losses on other receivables includes credit losses on non-trade receivables, advances to officers and employees and other receivables. Allowance for credit losses on advances to officers and employees amounted to ₱19.6 million as of December 31, 2019 and 2018.

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to commercial loans follow:

|   | 2019             |                 |              | Total            |
|---|------------------|-----------------|--------------|------------------|
|   | Stage 1          | Stage 2         | Stage 3      |                  |
| Gross carrying amount as at                             |                  |                 |              |                  |
| January 1, 2019   | ₱41,921,932,935  | ₱ 2,192,660,381 | ₱408,537,691 | ₱44,523,131,007  |
| New assets originated or purchased                      | 46,602,442,842   | –               | –            | 46,602,442,842   |
| Assets derecognized or repaid<br>(excluding write offs) | (40,627,258,041) | (895,796,642)   | (79,196,179) | (41,602,250,862) |
| Transfers to Stage 1                                    | 19,042,241       | (18,262,028)    | (780,213)    | –                |
| Transfers to Stage 2                                    | (2,606,146,389)  | 2,606,146,389   | –            | –                |
| Transfers to Stage 3                                    | (82,754,966)     | (23,879,279)    | 106,634,245  | –                |
| Amounts written off                                     | –                | –               | (8,487,510)  | (8,487,510)      |
|   | ₱45,227,258,622  | ₱3,860,868,821  | ₱426,708,034 | ₱49,514,835,477  |
| ECL allowance as at January 1, 2019 under               |                  |                 |              |                  |
| PFRS 9  | ₱83,537,302      | ₱100,794,487    | ₱203,967,077 | ₱388,298,866     |
| Provisions for (recovery of) credit losses*             | 129,961,685      | (55,321,666)    | (19,441,269) | 55,198,750       |
| Transfers to Stage 1                                    | 563,644          | (555,842)       | (7,802)      | –                |
| Transfers to Stage 2                                    | (41,030,960)     | 41,030,960      | –            | –                |
| Transfers to Stage 3                                    | (25,948,619)     | (12,810,656)    | 38,759,275   | –                |
| Amounts written off/reversals/others                    | –                | –               | (27,105,004) | (27,105,004)     |
|   | ₱147,083,052     | ₱73,137,283     | ₱196,172,277 | ₱416,392,612     |

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

|   | 2018             |                |              | Total            |
|---|------------------|----------------|--------------|------------------|
|   | Stage 1          | Stage 2        | Stage 3      |                  |
| Gross carrying amount as at                             |                  |                |              |                  |
| January 1, 2018   | ₱39,464,292,540  | ₱1,174,867,003 | ₱404,745,990 | ₱41,043,905,533  |
| New assets originated or purchased                      | 23,364,950,636   | 361,118,341    | 20,043,976   | 23,746,112,953   |
| Assets derecognized or repaid<br>(excluding write offs) | (19,621,495,004) | (589,806,948)  | (46,995,586) | (20,258,297,538) |
| Transfers to Stage 1                                    | 307,476,095      | (307,441,613)  | (34,482)     | –                |
| Transfers to Stage 2                                    | (1,556,831,549)  | 1,556,896,848  | (65,299)     | –                |
| Transfers to Stage 3                                    | (36,459,783)     | (2,973,250)    | 39,433,033   | –                |
| Amounts written off                                     | –                | –              | (8,589,941)  | (8,589,941)      |
|   | ₱41,921,932,935  | ₱2,192,660,381 | ₱408,537,691 | ₱44,523,131,007  |
| ECL allowance as at January 1, 2018 under               |                  |                |              |                  |
| PFRS 9  | ₱118,551,456     | ₱43,048,715    | ₱144,053,980 | ₱305,654,151     |
| Provisions for (recovery of) credit losses*             | 84,771           | (5,581,679)    | 65,093,925   | 59,597,017       |
| Transfers to Stage 1                                    | 22,394,829       | (22,386,173)   | (8,656)      | –                |
| Transfers to Stage 2                                    | (2,305,027)      | 2,335,326      | (30,299)     | –                |
| Transfers to Stage 3                                    | (327,588)        | (62,753)       | 390,341      | –                |
| Amounts written off/reversals/others                    | (54,861,139)     | 83,441,051     | (5,532,214)  | 23,047,698       |
|   | ₱83,537,302      | ₱100,794,487   | ₱203,967,077 | ₱388,298,866     |

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to real estate follow:

|  | 2019                   |                       |                     |                        |
|--|------------------------|-----------------------|---------------------|------------------------|
|  | Stage 1                | Stage 2               | Stage 3             | Total                  |
| Gross carrying amount as at January 1, 2019          | ₱13,768,377,307        | ₱506,920,608          | ₱100,992,043        | ₱14,376,289,958        |
| New assets originated or purchased                   | 6,914,015,679          | –                     | –                   | 6,914,015,679          |
| Assets derecognized or repaid (excluding write offs) | (1,822,041,114)        | (115,817,336)         | (24,012,176)        | (1,961,870,626)        |
| Transfers to Stage 1                                 | 153,185,241            | (145,123,078)         | (8,062,163)         | –                      |
| Transfers to Stage 2                                 | (869,062,811)          | 870,508,779           | (1,445,968)         | –                      |
| Transfers to Stage 3                                 | (107,115,914)          | (81,285,519)          | 188,401,433         | –                      |
|  | <b>₱18,037,358,388</b> | <b>₱1,035,203,454</b> | <b>₱255,873,169</b> | <b>₱19,328,435,011</b> |
| ECL allowance as at January 1, 2019 under PFRS 9     | ₱3,192,152             | ₱77,690               | ₱21,255,559         | ₱24,525,401            |
| Provisions for (recovery of) credit losses*          | 10,278,180             | 178,557               | (15,024,227)        | (4,567,490)            |
| Transfers to Stage 1                                 | 65,712                 | (62,917)              | (2,795)             | –                      |
| Transfers to Stage 2                                 | (1,258,639)            | 1,259,253             | (614)               | –                      |
| Transfers to Stage 3                                 | (295,489)              | (70,408)              | 365,897             | –                      |
| Amounts written off/reversals/others                 | –                      | –                     | 59,834              | 59,834                 |
|  | <b>₱11,981,916</b>     | <b>₱1,382,175</b>     | <b>₱6,653,654</b>   | <b>₱20,017,745</b>     |

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

|  | 2018                   |                     |                     |                        |
|--|------------------------|---------------------|---------------------|------------------------|
|  | Stage 1                | Stage 2             | Stage 3             | Total                  |
| Gross carrying amount as at January 1, 2018          | ₱8,904,302,261         | ₱454,990,766        | ₱71,095,894         | ₱9,430,388,921         |
| New assets originated or purchased                   | 6,001,176,655          | 112,148,059         | 7,663,077           | 6,120,987,791          |
| Assets derecognized or repaid (excluding write offs) | (1,064,976,547)        | (78,867,674)        | (31,242,533)        | (1,175,086,754)        |
| Transfers to Stage 1                                 | 251,522,724            | (248,679,679)       | (2,843,045)         | –                      |
| Transfers to Stage 2                                 | (293,462,167)          | 295,837,671         | (2,375,504)         | –                      |
| Transfers to Stage 3                                 | (30,185,619)           | (28,508,535)        | 58,694,154          | –                      |
|  | <b>₱13,768,377,307</b> | <b>₱506,920,608</b> | <b>₱100,992,043</b> | <b>₱14,376,289,958</b> |
| ECL allowance as at January 1, 2018 under PFRS 9     | ₱2,943,318             | ₱146,529            | ₱14,309,948         | ₱17,399,795            |
| Provisions for (recovery of) credit losses*          | 101,264                | –                   | 4,490,635           | 4,591,899              |
| Transfers to Stage 1                                 | 318,455                | (90,538)            | (227,917)           | –                      |
| Transfers to Stage 2                                 | (94,116)               | 284,552             | (190,436)           | –                      |
| Transfers to Stage 3                                 | (6,061)                | (13,465)            | 19,526              | –                      |
| Amounts written off/reversals/others                 | (70,708)               | (249,388)           | 2,853,803           | 2,533,707              |
|  | <b>₱3,192,152</b>      | <b>₱77,690</b>      | <b>₱21,255,559</b>  | <b>₱24,525,401</b>     |

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to consumer loans follow:

|  | 2019                  |                     |                     |                        |
|--|-----------------------|---------------------|---------------------|------------------------|
|  | Stage 1               | Stage 2             | Stage 3             | Total                  |
| Gross carrying amount as at January 1, 2019          | ₱7,299,551,418        | ₱636,617,017        | ₱608,890,125        | ₱8,545,058,560         |
| New assets originated or purchased                   | 13,357,901,496        | –                   | –                   | 13,357,901,496         |
| Assets derecognized or repaid (excluding write offs) | (10,233,327,334)      | (502,348,180)       | (256,909,581)       | (10,992,585,095)       |
| Transfers to Stage 1                                 | 37,818,753            | (33,334,187)        | (4,484,566)         | –                      |
| Transfers to Stage 2                                 | (555,784,021)         | 560,260,790         | (4,476,769)         | –                      |
| Transfers to Stage 3                                 | (229,800,248)         | (53,131,558)        | 282,931,806         | –                      |
| Amounts written off                                  | (61,469,155)          | (9,962,381)         | (11,671,917)        | (83,103,453)           |
|  | <b>₱9,614,890,909</b> | <b>₱598,101,501</b> | <b>₱614,279,098</b> | <b>₱10,827,271,508</b> |
| ECL allowance as at January 1, 2019 under PFRS 9     | ₱94,119,655           | ₱29,016,475         | ₱429,825,442        | ₱552,961,572           |
| Provisions for (recovery of) credit losses*          | 76,827,427            | (6,429,006)         | 5,524,883           | 75,923,304             |
| Transfers to Stage 1                                 | 714,750               | (591,394)           | (123,356)           | –                      |
| Transfers to Stage 2                                 | (6,887,238)           | 7,005,271           | (118,033)           | –                      |
| Transfers to Stage 3                                 | (67,296,152)          | (21,425,387)        | 88,721,539          | –                      |
| Amounts written off/reversals/others                 | –                     | –                   | (50,594,566)        | (50,594,566)           |
|  | <b>₱97,478,442</b>    | <b>₱7,575,959</b>   | <b>₱473,235,909</b> | <b>₱578,290,310</b>    |

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

|  | 2018                  |                     |                     |                       |
|--|-----------------------|---------------------|---------------------|-----------------------|
|  | Stage 1               | Stage 2             | Stage 3             | Total                 |
| Gross carrying amount as at January 1, 2018          | ₱5,982,202,651        | ₱261,421,486        | ₱603,641,275        | ₱6,847,265,412        |
| New assets originated or purchased                   | 4,917,675,514         | 104,581,060         | 22,219,280          | 5,044,475,854         |
| Assets derecognized or repaid (excluding write offs) | (3,018,681,352)       | (153,517,117)       | (90,794,167)        | (3,262,992,636)       |
| Transfers to Stage 1                                 | 50,749,426            | (48,133,361)        | (2,616,065)         | –                     |
| Transfers to Stage 2                                 | (514,473,079)         | 518,737,348         | (4,264,269)         | –                     |
| Transfers to Stage 3                                 | (117,921,742)         | (46,472,399)        | 164,394,141         | –                     |
| Amounts written off                                  | –                     | –                   | (83,690,070)        | (83,690,070)          |
|  | <b>₱7,299,551,418</b> | <b>₱636,617,017</b> | <b>₱608,890,125</b> | <b>₱8,545,058,560</b> |
| ECL allowance as at January 1, 2018 under PFRS 9     | ₱61,091,031           | ₱18,228,660         | ₱483,060,785        | ₱562,380,476          |
| Provisions for (recovery of) credit losses*          | 6,527,664             | 1,164,467           | 12,006,007          | 19,698,138            |
| Transfers to Stage 1                                 | 2,504,082             | (1,527,203)         | (976,879)           | –                     |
| Transfers to Stage 2                                 | (7,964,591)           | 9,714,157           | (1,749,566)         | –                     |
| Transfers to Stage 3                                 | (2,763,152)           | (5,260,527)         | 8,023,679           | –                     |
| Amounts written off/reversals/others                 | 34,724,621            | 6,696,921           | (70,538,584)        | (29,117,042)          |
|  | <b>₱94,119,655</b>    | <b>₱29,016,475</b>  | <b>₱429,825,442</b> | <b>₱552,961,572</b>   |

\*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

## 12. Inventories

This account consists of inventories at cost held as follows:

|  | 2019                   | 2018            |
|--|------------------------|-----------------|
| Subdivision land, condominium and residential units for sale | <b>₱36,062,897,387</b> | ₱31,464,454,298 |
| Spare parts, packaging materials and other supplies          | <b>10,901,828,797</b>  | 10,572,850,617  |
| Raw materials  | <b>10,718,499,893</b>  | 11,519,075,356  |
| Finished goods   | <b>9,155,597,372</b>   | 8,739,717,461   |
| Work-in-process  | <b>1,667,556,834</b>   | 1,169,383,710   |
| By-products  | <b>7,496,226</b>       | 6,555,586       |
|  | <b>₱68,513,876,509</b> | ₱63,472,037,028 |

Summary of the movements in real estate inventory follows:

|  | 2019                   | 2018            |
|--|------------------------|-----------------|
| Balance at beginning of year   | <b>₱31,464,454,298</b> | ₱28,854,049,360 |
| Construction and development costs incurred  | <b>8,723,176,262</b>   | 5,868,091,167   |
| Costs of real estate sales (Note 30)   | <b>(4,235,325,163)</b> | (4,931,427,825) |
| Transfers from (to) investment properties, property and equipment and unrealized land cost (Notes 15 and 16) | <b>110,591,990</b>     | 1,673,741,596   |
| Balance at end of year   | <b>₱36,062,897,387</b> | ₱31,464,454,298 |

Borrowing cost capitalized amounted to ₱486.0 million and ₱548.0 million in 2019 and 2018, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2019 and 2018 is 4.59% and 4.50%, respectively. This amount was included in the construction and development costs incurred.

The amount of subdivision land, condominium and residential units for sale recognized as cost of real estate sales in the consolidated statements of comprehensive income amounted to ₱4.2 billion, ₱4.9 billion and ₱3.1 billion for the years ended December 31, 2019, 2018 and 2017, respectively.

Under the terms of agreements covering liabilities under trust receipts amounting to ₱8.7 billion and ₱6.0 billion as of December 31, 2019 and 2018, respectively, certain inventories which approximate the trust receipts payable, have been released to the Group under trust receipt agreement with the banks (see Note 23). The Group is accountable to the banks for the value of the trusted inventories or their sales proceeds.

The Group recognized impairment losses on its inventories included under 'Impairment losses and others' amounting to ₱2,678, ₱7.9 million and ₱2.9 million in 2019, 2018 and 2017, respectively (see Note 34).

On October 20, 2015, the Chinese government awarded the Contract for Assignment of the Rights to the Use of State-Owned Land (the Contract) to the Group. In May 2016, the Masterplan had been completed and was submitted for approval to the Chinese government in the same month. The Chinese government approved the Masterplan in the first quarter of 2017 and construction activities have commenced (recognized as land use right and development cost).

Under the Contract, the Group is entitled to transfer, lease, mortgage all or part of the state-owned construction land use right to a third party. Upon receipt of the Certificate of State-owned Land Use Right Assignment, the land title will be subdivided into Individual Property Titles which will be issued to unit owners one year after completion of the development and turn-over of the units to the buyers. When all or part of the state-owned construction land use right is transferred, through sale of commercial units and high-rise condominium units to buyers, the rights and obligations specified in the Contract and in the land registration documents shall be transferred accordingly to the buyer. The use term will be the remaining years as of the date of transfer based on the original use term specified in the Contract.

When the use term under the Contract expires (residential: 70 years and commercial: 40 years) and the land user continues using the assigned land under the Contract, an application for renewal shall be submitted to the Chinese government not less than one (1) year prior to the expiration of the use term.

The land use right (included in ‘Subdivision land, condominium and residential units for sale’) amounting to P10.2 billion as at December 31, 2018 is pledged as security to the Renminbi (RMB) 216 million (P1.7 billion) loan from Agricultural Bank of China. The said loan was fully paid in December 2019. No subdivision land, condominium and residential units for sale were pledged as security to liabilities as of December 31, 2019.

### 13. Other Current Assets

This account consists of:

|   | 2019                   | 2018            |
|---|------------------------|-----------------|
| Input value-added tax (VAT)                       | <b>₹9,301,277,182</b>  | ₹5,866,368,778  |
| Advances to suppliers (Note 2)                    | <b>4,859,810,484</b>   | 5,949,470,490   |
| Prepaid expenses                                  | <b>2,542,682,724</b>   | 2,684,249,213   |
| Restricted cash                                   | <b>2,533,017,832</b>   | 7,607,799,241   |
| Advances to lot owners and joint operations       | <b>2,142,570,836</b>   | 748,273,145     |
| Creditable withholding tax                        | <b>1,785,546,288</b>   | 1,614,910,944   |
| Utility deposits                                  | <b>8,417,364</b>       | 7,831,041       |
| Derivative assets under hedge accounting (Note 8) | –                      | 6,389,048       |
| Others  | <b>27,311,868</b>      | 81,307,312      |
|   | <b>₹23,200,634,578</b> | ₹24,566,599,212 |

#### Input VAT

Input tax pertains to VAT from purchases of goods and services, which will be claimed as credit against output tax liabilities in a manner prescribed by pertinent revenue regulations. The Group believes that the amount of input VAT is fully realizable in the future.

#### Advances to Suppliers

Advances to suppliers include advance payments for the acquisition of raw materials, spare parts, packaging materials and other supplies. This also includes prepayments for the construction of residential projects.

#### Advances to Lot Owners and Joint Operations

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired. The application is expected to be within twelve (12) months after the reporting date.

This also includes deposit to various joint operations partners representing share in an ongoing real estate development which will be liquidated at the end of the joint venture agreement. This deposit will be realized through RLC's share in the completed units or share in the sales proceeds of the units, depending on the agreement with the other party.

Prepaid Expenses

This account consists of prepayments on rent, insurance, taxes, and office supplies.

Restricted Cash

RLC has restricted cash that includes the deposits in local banks for the purchase of land and deposits of buyers of Chengdu Xin Yao which will mainly be used for construction of real estate inventories.

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**14. Investments in Associates and Joint Ventures**

Details of this account follow:

|  | 2019                     | 2018             |
|--|--------------------------|------------------|
| Acquisition cost:  |                          |                  |
| Balance at beginning of year   | P <b>117,629,554,926</b> | P115,132,972,597 |
| Additional investments   | <b>1,544,789,775</b>     | 3,273,567,354    |
| Reclassification / transfer  | <b>82,500,000</b>        | -                |
| Disposal of investment   | -                        | (448,735,025)    |
| Reclassification to investment in subsidiaries due to step-up acquisition  | -                        | (328,250,000)    |
| Balance at end of year   | <b>119,256,844,701</b>   | 117,629,554,926  |
| Accumulated equity in net earnings:  |                          |                  |
| Balance at beginning of year   | <b>26,863,845,970</b>    | 23,183,588,136   |
| Equity in net earnings   | <b>13,357,511,170</b>    | 10,181,841,883   |
| Reclassification to investment in subsidiaries due to step- up acquisition   |                          | 105,478,327      |
| Accumulated equity in net losses (earnings) of disposed investment   |                          | 297,544,736      |
| Elimination of unrealized gains on downstream sales  | <b>(225,846,870)</b>     | (990,497,652)    |
| Reclassification / transfer  | <b>(147,578,714)</b>     |                  |
| Dividends received   | <b>(6,866,259,987)</b>   | (5,914,109,460)  |
| Balance at end of year   | <b>32,981,671,569</b>    | 26,863,845,970   |
| Share in unrealized gain (loss) on financial assets at fair value thru other comprehensive income (FVOCI) of associates: |                          |                  |
| Balance at beginning of year   | <b>(141,404,566)</b>     | -                |
| Share in net changes in fair value of financial assets at FVOCI of associates  | <b>176,256,150</b>       | (141,404,566)    |
| Balance at end of year   | <b>34,851,584</b>        | (141,404,566)    |

(Forward)

|   | 2019                    | 2018             |
|---|-------------------------|------------------|
| Share in remeasurements of the net defined benefit liability of associates:               |                         |                  |
| Balance at beginning of year  | <b>₱585,931,095</b>     | ₱198,173,021     |
| Share in net changes in remeasurements of the net defined benefit liability of associates | <b>(1,170,380,505)</b>  | 387,758,074      |
|   | <b>(584,449,410)</b>    | 585,931,095      |
| Cumulative translation adjustment   | <b>300,104,541</b>      | 274,120,205      |
|   | <b>151,989,022,985</b>  | 145,212,047,630  |
| Less allowance for impairment losses  | <b>297,450,397</b>      | 297,450,397      |
|   | <b>₱151,691,572,588</b> | ₱144,914,597,233 |

Equity in net earnings amounting to ₱10.1 billion in 2017 excludes the excess of the share in net loss over the investment in a joint venture amounting to ₱147.6 million (presented in 'Other noncurrent liabilities). In 2019, this amount was reclassified to and recorded as part of the accumulated equity in net earnings of joint venture as a result of the additional investment during the year.

The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of effective ownership interest are shown below:

|   | Effective Ownership |       | Carrying Value     |           |
|---|---------------------|-------|--------------------|-----------|
|   | 2019                | 2018  | 2019               | 2018      |
|   |                     |       | (In Million Pesos) |           |
| <b>Associates</b>   |                     |       |                    |           |
| Domestic:   |                     |       |                    |           |
| Manila Electric Company (Meralco) Global Business Power Corporation (GBPC)          | 29.56               | 29.56 | ₱80,372.8          | ₱79,942.0 |
| Oriental Petroleum and Mining Corporation (OPMC)                                    | 30.00               | 30.00 | 11,979.7           | 12,126.0  |
| Luzon International Premiere Airport Development Corp. (LIPAD)                      | 19.40               | 19.40 | 758.3              | 791.6     |
| G2M Solutions Philippines Pte. Ltd (G2M)  | 33.00               | -     | 171.3              | -         |
| Cebu Light Industrial Park, Inc. (CLIP)   | 0.00                | 0.00  | 160.5              | 160.5     |
| 1Aviation Groundhandling Services Corp. Summit Supply Chain Solutions, Inc. (SSCSI) | 20.00               | 20.00 | 59.1               | 61.3      |
| Shang Robinsons Properties, Inc.  | 27.05               | 27.05 | 30.7               | 25.0      |
|   | 50.00               | -     | 30.0               | -         |
| Foreign:  | 30.49               | 30.49 | -                  | -         |
| United Industrial Corp., Limited (UICL)   | 37.05               | 37.05 | 54,303.4           | 48,981.3  |
| Air Black Box (ABB)   | 10.15               | 10.15 | 43.7               | 43.7      |
| Zyllem Pte. Ltd   | 13.33               | -     | 50.8               | -         |
|   |                     |       | <b>147,960.3</b>   | 142,131.4 |
| <b>Joint Ventures</b>   |                     |       |                    |           |
| Domestic:   |                     |       |                    |           |
| RHK Land Corporation  | 36.58               | 36.58 | 1,375.5            | 1,383.3   |
| Robinsons DoubleDragon Corporation  | 40.07               | -     | 613.3              | -         |
| SIA Engineering (Philippines) Corp. (SIAEP)   | 23.67               | 23.67 | 470.6              | 425.7     |
| RLC DMCI Property Ventures, Inc   | 30.49               | -     | 361.3              | -         |
| Aviation Partnership (Philippines) Corp. (APPC)                                     | 33.14               | 33.14 | 247.5              | 252.4     |

(Forward)

|   | Effective Ownership |       | Carrying Value    |            |
|---|---------------------|-------|-------------------|------------|
|   | 2019                | 2018  | 2019              | 2018       |
|   | (In Million Pesos)  |       |                   |            |
| Philippine Academy for Aviation Training (PAAT) | 33.82               | 33.82 | 237.7             | 197.0      |
| Vitasoy-URC, Inc (VURCI)                        | 27.63               | 27.63 | 76.3              | 195.8      |
| MPIC-JGS Airport Holdings, Inc.                 | 41.25               | 41.25 | 3.8               | 3.8        |
| Danone Universal Robina Beverages, Inc. (DURBI) | 27.63               | 27.63 | -                 | -          |
| Foreign:  |                     |       |                   |            |
| Calbee - URC Malaysia Sdn. Bhd (CURM)           | 27.63               | 27.63 | 32.5              | 31.8       |
| Proper Snack Foods Limited (PSFL)               | 27.68               | 27.68 | 312.8             | 293.3      |
|   |                     |       | <b>3,731.3</b>    | 2,783.1    |
|   |                     |       | <b>₱151,691.6</b> | ₱144,914.5 |

### Material investees

#### *Meralco*

On June 14, 2017, the Parent Company acquired an additional 27,500,000 common shares of Meralco for a total cost of ₱6.9 billion. After this transaction, the total number of shares held by the Parent Company is 333,189,397 representing 29.56% of Meralco's total outstanding common shares.

#### *OPMC*

The Group accounts for its investment in OPMC as an associate although the Group holds less than 20.00% of the issued share capital, as the Group has the ability to exercise significant influence over the investment, due to the Group's voting power (both through its equity holding and its representation in key decision-making committees) and the nature of the commercial relationships with OPMC.

#### *UICL*

UICL, a company incorporated in Singapore, is engaged in residential property management. UICL follows the fair value model in measuring investment properties while the Group follows the cost model in measuring investment properties. The financial information of UICL below represents the adjusted amounts after reversal of the effect of revaluation and depreciation on the said assets.

#### *Fair value of investments in listed associates*

As of December 31, 2019 and 2018, the Group's investments in the following listed investee companies have fair values of:

|         | Exchange Listed            | 2019                    | 2018             |
|---------|----------------------------|-------------------------|------------------|
| Meralco | Philippine Stock Exchange  | <b>₱105,621,038,849</b> | ₱126,611,970,860 |
| UICL    | Singapore Exchange Limited | <b>57,839,671,246</b>   | 66,734,036,905   |
| OPMC    | Philippine Stock Exchange  | <b>426,890,219</b>      | 504,506,623      |

As of December 31, 2019 and 2018, the breakdown of the total fair market value of the Group's investment in OPMC follows:

|                      | 2019                | 2018         |
|----------------------|---------------------|--------------|
| Class A Common Stock | <b>₱99,115,847</b>  | ₱117,136,910 |
| Class B Common Stock | <b>327,774,372</b>  | 387,369,713  |
|                      | <b>₱426,890,219</b> | ₱504,506,623 |

The fair value is based on the quoted price prevailing as of the reporting date.

Summarized below is the financial information of the significant associates of the Group:

- Summarized statements of financial position of the Group's significant associates as of December 31, 2019 and 2018:

|   | 2019             |                 |                  |                |                  | 2018            |                  |                |      |  |
|---|------------------|-----------------|------------------|----------------|------------------|-----------------|------------------|----------------|------|--|
|   | Meralco          | GBPC            | UICL             | OPMC           | Meralco          | GBPC            | UICL             | OPMC           | OPMC |  |
| Current assets                            | ₱117,689,831,692 | ₱20,184,035,973 | ₱16,201,055,165  | ₱1,052,518,706 | ₱115,343,934,019 | ₱22,316,013,410 | ₱42,351,633,909  | ₱2,800,190,595 |      |  |
| Noncurrent assets                         | 239,328,530,315  | 53,315,336,661  | 323,370,941,921  | 3,654,791,311  | 220,905,121,930  | 54,186,310,779  | 254,084,326,293  | 2,055,096,503  |      |  |
| Current liabilities                       | 127,562,136,965  | 11,410,541,046  | 25,530,846,420   | 83,985,743     | 115,516,521,622  | 10,857,020,220  | 50,308,105,990   | 137,639,214    |      |  |
| Noncurrent liabilities                    | 144,221,146,025  | 31,005,793,045  | 14,045,653,002   | 72,166,166     | 137,850,510,873  | 34,459,556,763  | 4,247,430,935    | —              |      |  |
| Equity                                    | ₱85,235,079,017  | ₱31,083,038,543 | ₱299,995,497,664 | ₱4,551,158,108 | ₱82,882,023,454  | ₱31,185,747,206 | ₱241,880,423,277 | ₱4,717,647,884 |      |  |
| Group's carrying amount of the investment | ₱80,372,762,133  | ₱11,979,694,056 | ₱54,303,411,019  | ₱758,306,983   | ₱79,941,986,898  | ₱12,126,046,658 | ₱48,981,302,371  | ₱791,595,964   |      |  |

As of December 31, 2019 and 2018, the Group's share in Meralco's net assets amounted to ₱25.2 billion and ₱24.5 billion, respectively. As of December 31, 2019 and 2018, the excess of the carrying value over the Group's share in Meralco's net assets is attributable to the notional goodwill and the difference between the fair value and carrying value of Meralco's net assets at the date of acquisition.

As of December 31, 2019 and 2018, the Group's share in GBPC's net assets amounted to ₱9.4 billion and ₱9.5 billion, respectively. The excess of the Group's share in the carrying value of GBPC's net assets over the carrying value of the investment is attributable to the notional goodwill and the difference between the fair value and carrying value of GBPC's net assets at the date of acquisition.

As of December 31, 2019 and 2018, the Group's share in UICL's net assets amounted to ₱11.1 billion and ₱89.6 billion, respectively. The excess of the Group's share in the carrying value of UICL's net assets over the carrying value of the investment is attributable to the difference between the fair value and carrying value of UICL's net assets at the date of acquisition.

As of December 31, 2019 and 2018, the Group's share in OPMC's net assets amounted to ₱882.9 million and ₱915.2 million, respectively. The excess of the Group's share in the carrying value of OPMC's net assets over the carrying value of the investment is attributable to the difference between the fair value and carrying value of OPMC's net assets at the date of acquisition.

Summarized statements of comprehensive income of the Group's significant associates for the period ended December 31, 2019, 2018 and 2017:

|   | 2019             |                 |                |              |                  | 2018            |                 |              |      |  |
|---|------------------|-----------------|----------------|--------------|------------------|-----------------|-----------------|--------------|------|--|
|   | Meralco          | GBPC            | UICL           | OPMC         | Meralco          | GBPC            | UICL            | OPMC         | OPMC |  |
| Revenue   | ₱319,322,222,397 | ₱24,664,347,108 | ₱968,672,147   | ₱373,034,295 | ₱306,484,000,000 | ₱27,219,494,275 | ₱26,398,495,164 | ₱546,215,154 |      |  |
| Expenses  | 289,069,727,910  | 17,390,229,780  | 467,453,130    | 299,805,689  | 276,737,000,000  | 20,342,220,593  | 16,158,971,353  | 390,232,352  |      |  |
| Finance costs (income)  | (1,662,088,758)  | 2,264,670,273   | 2,930,980      | -            | (798,000,000)    | 2,239,282,564   | 9,696,634       | -            |      |  |
| Profit before tax   | 31,914,583,245   | 5,009,447,055   | 498,288,037    | 73,228,606   | 30,545,000,000   | 4,637,991,118   | 10,229,827,177  | 155,982,802  |      |  |
| Income tax expense  | 8,543,046,152    | 1,102,612,239   | 41,642,037     | -            | 7,443,000,000    | 1,120,985,283   | 1,486,108,349   | 35,520,914   |      |  |
| Profit for the year (continuing operations)                     | ₱23,371,537,093  | ₱3,906,834,816  | ₱456,646,000   | ₱73,228,606  | ₱23,102,000,000  | ₱3,517,005,835  | ₱8,743,718,828  | ₱120,461,888 |      |  |
| Other comprehensive income (loss) for the year                  | (2,995,676,854)  | -               | -              | -            | 480,000,000      | -               | -               | -            |      |  |
| Total comprehensive income for the year (continuing operations) | ₱20,375,860,239  | ₱3,906,834,816  | ₱456,646,000   | ₱73,228,606  | ₱23,582,000,000  | ₱3,517,005,835  | ₱8,743,718,828  | ₱120,461,888 |      |  |
| Group's share of profit for the year                            | ₱6,667,422,170   | ₱671,236,006    | ₱6,037,320,136 | ₱14,206,355  | ₱6,588,285,540   | ₱621,783,963    | ₱3,239,372,942  | ₱22,017,011  |      |  |

|   | 2017             |                 |                 |              |      |
|---|------------------|-----------------|-----------------|--------------|------|
|   | Meralco          | GBPC            | UICL            | OPMC         | OPMC |
| Revenue   | ₱283,382,000,000 | ₱23,980,615,078 | ₱48,056,937,031 | ₱498,684,483 |      |
| Expenses  | 256,178,000,000  | 17,192,603,211  | 34,646,705,537  | 376,981,707  |      |
| Finance costs   | 658,000,000      | 1,776,083,291   | 426,294,642     | -            |      |
| Profit before tax   | 26,546,000,000   | 5,011,928,576   | 12,983,936,852  | 121,702,776  |      |
| Income tax expense  | 7,363,000,000    | 1,239,464,976   | 1,815,520,951   | 2,874,004    |      |
| Profit for the year (continuing operations)                     | ₱19,183,000,000  | ₱3,772,463,600  | ₱11,168,415,901 | ₱118,828,772 |      |
| Total comprehensive income for the year (continuing operations) | 470,000,000      | (54,211,548)    | -               | 16,272,503   |      |
| Total comprehensive income for the year (continuing operations) | ₱19,653,000,000  | ₱3,718,252,052  | ₱11,168,415,901 | ₱135,101,275 |      |
| Group's share of profit for the year                            | ₱5,601,657,500   | ₱719,181,542    | ₱3,752,117,462  | ₱8,831,693   |      |

### Individually immaterial investees

#### *LIPAD*

On February 18, 2019, the Parent Company invested in Luzon International Premiere Airport Development Corporation (LIPAD). The shares acquired represented 33% of LIPAD's total outstanding common shares. LIPAD is a corporation organized and incorporated in the Philippines to engage in the operation and maintenance of airports, whether operating as a domestic or international airport or both, including day-to-day administration, functioning, management, manning, upkeep, and repair of all facilities necessary for the use or required for the safe and proper operation of airports.

#### *CLIPi*

As of December 31, 2019 and 2018, the Group has deposit for future stock subscription in CLIPi amounting to ₱10.0 million. These represents 20.0% of CLIPi's proposed increase in authorized capital stock.

#### *G2M*

On September 20, 2018, the Parent Company invested in G2M's convertible note amounting to \$5.9 million. The Parent Company paid \$2.97 million to G2M as first installment payment and will pay the remaining \$2.97 million note when certain conditions are met. The convertible note gives the Parent Company the right to convert to 14.90% of the outstanding stock of G2M. The Parent Company has one representation on the BOD of the G2M.

#### *PAAT*

Investment in PAAT pertains to CAI's 60% investment in shares of the joint venture. However, the joint venture agreement between the CAI and CAE International Holdings Limited (CAE) states that CAI is entitled to 50% share on the net income/loss of PAAT. As such, the CAI recognizes equivalent 50% share in net income and net assets of the joint venture.

As of December 31, 2019 and 2018, CAI's investment in PAAT amounted to ₱237.7 million and ₱188.7 million.

#### *CURCI*

In September 2018, URC entered into a share purchase agreement with its joint venture partner, Calbee, Inc., to acquire the latter's 50% equity interest in CURCI for a total consideration of ₱171.0 million, which approximates the fair values of identifiable net assets acquired. The purchase of the additional 50% shares will allow URC to have full control of CURCI, consistent with its agenda of driving an aligned and scalable snacking category growth. As a result of the sale, CURCI became a wholly-owned subsidiary. The purchase of the additional 50% shares will allow the Parent Company to have full control of CURCI, consistent with its agenda of driving an aligned and scalable snacking category growth. As a result of the sale, CURCI became a wholly-owned subsidiary of the Parent Company.

#### *HURC*

URC has an equity interest in HURC, a domestic joint venture which is a jointly controlled entity. HURC manufactures and distributes food products under the "Hunt's" brand name, which is under exclusive license to HURC in the Philippines. In 2017, URC entered into certain agreements with a third party to sell its rights, title, and interest in the assets used in manufacturing the Hunt's business, as well as pre-termination of the right to manufacture, sell, and distribute Hunt's products (see Note 16). Subsequent to the sale HURC remains to exist as a jointly controlled entity.

In September 2018, URC entered into a share purchase agreement with its joint venture partner, ConAgra Grocery Products Company, LLC., to acquire its 50% equity interest in HURC for a total consideration of ₱3.2 million. The acquisition of the HURC shares made HURC a wholly-owned subsidiary of URC.

#### *DURBI*

On May 23, 2014, URC entered into a joint venture agreement with Danone Asia Holdings Pte. Ltd., a corporation duly organized in the Republic of Singapore to form Danone Universal Robina Beverages, Inc. (DURBI), a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the “B’lue” brand name, which is under exclusive license to DURBI in the Philippines.

In 2018, URC made additional subscriptions to the unissued authorized capital stock of DURBI consisting of 5,000,000 common shares for a total cost of ₱82.5 million. The capital infusion was not presented as additional investment but was applied to the 2017 excess of the share in net loss over the investment.

In 2019, URC made additional subscriptions to the unissued authorized capital stock of DURBI consisting of 10,000,000 common share for a total cost of ₱125.0 million. The capital infusion was not presented as additional investment but was applied to the 2017 excess of the share in net loss over the investment.

#### *PSFL*

On June 30, 2017, Griffin’s Food Limited (Griffin’s) purchased 50.1% of the shares in Proper Snack Foods Ltd (a Nelson, New Zealand-based business with the 49.9% shareholder being an individual) for a total consideration of approximately NZ\$8.0 million, or ₱282.1 million. PSFL manufactures and distributes crisps.

#### *Calbee-URC Malaysia*

On August 23, 2017, URC Malaysia entered into a joint venture agreement with Calbee, Inc., a corporation duly organized in Japan to form Calbee-URC Malaysia Sdn Bhd (CURM), a corporation registered with the Companies Commission of Malaysia organized to manufacture savory snack products. Total consideration amounted to MYR2.7 million (₱34.3 million).

#### *Shang Robinsons Properties, Inc. (SRPI)*

On November 13, 2017, RLC’s BOD approved the agreement with Shang Properties, Inc. (SPI) to form a joint venture corporation (JVC).

On May 23, 2018, Shang Robinsons Properties, Inc., the JVC, was incorporated. Both RLC and SPI each own 50% of the outstanding shares in the JVC. The office address of the JVC is at Lower Ground Floor, Cyber Sigma Building, Lawton Avenue, Fort Bonifacio Taguig.

RLC and SPI, through the JVC, shall build and develop a property situated at McKinley Parkway corner 5th Avenue and 21st Drive at Bonifacio Global City, Taguig, Metro Manila. The project is intended to be a mixed-use development and may include residential condominium units, serviced apartments and commercial retail outlets. The JVC also plans to pursue other development projects.

#### *RHK Land Corporation*

On February 5, 2018, RLC’s BOD approved the agreement with Hong Kong Land Group (HKLG) represented by Hong Kong Land International Holdings, Ltd. and its subsidiary Ideal Realm Limited to form a joint venture corporation (JVC).

On June 14, 2018, RHK Land Corporation, the JVC, was incorporated. RLC and HKLG owns 60% and 40%, respectively, of the outstanding shares in the JVC. The principal office of the JVC is at 12F Robinsons Cyberscape Alpha, Sapphire and Garnet Roads, Ortigas Center, Pasig City.

RLC and HKLG, through the JVC, shall engage in the acquisition, development, sale and leasing of real property. The JVC shall initially undertake the purchase of a property situated in Block 4 of Bridgetowne East, Pasig City, develop the property into a residential enclave and likewise carry out the marketing and sales of the residential units. The JVC also plans to pursue other development projects.

On October 2018, RLC entered into a Shareholder Loan Agreement with the JVC. Repayment date falls on the fifth anniversary of the effective date.

*Robinsons DoubleDragon Corporation (RDDC)*

On December 26, 2019, Robinsons DoubleDragon Corp. (RDDC) was incorporated as the joint venture company (JVC) between RLC and DoubleDragon Corporation. The primary purpose is to engage in realty development.

*RLC DMCI Property Ventures, Inc.*

In October 2018, the Parent Company entered into a Joint Venture Agreement with DMCI Project Developers, Inc. (DMCI PDI) to develop, construct, manage, and sell a residential condominium situated in Las Piñas City. Both parties agreed to incorporate a joint venture corporation where each party will hold a 50% ownership.

On March 18, 2019, RLC DMCI Property Ventures, Inc. (RLC DMCI) was incorporated as the joint venture company (JVC) between RLC and DMCI PDI. The proposed project is intended to be a multi-tower residential condominium and may include commercial spaces.

*Summit Supply Chain Solutions, Inc.*

On December 18, 2019, the Parent Company invested in Summit Supply Chain Solutions, Inc (SSCSI). SSCSI shall engage in the business of providing domestic transportation, logistics, warehousing and distribution of cargoes, and other supply chain management activities. SSCSI is expected to start commercial operations in June 2020.

*Zyllem Pte. Ltd.*

In August 2019, JGDCPL invested in 7,476,857 Series A+ shares of Zyllem Pte. Ltd. (Zyllem) at SGD0.1806 per share, or total subscription price of SGD1.35 million. Zyllem is a private company incorporated and based in Singapore that provides fast, cost-effective and reliable on-demand delivery service. Zyllem operates in certain cities in Southeast Asia. Post-subscription, JGDCPL holds 13.33% ownership interest in Zyllem. Also, under the Shareholders' Agreement, subject to JGDCPL holding less than 10% ownership interest, JGDCPL is entitled to appoint one (1) director. The investment in Zyllem is accounted for as investment in an associate since the Group has one representation on the BOD of Zyllem.

Aggregate information of associates and joint ventures that are not individually material follows:

|   | 2019                |                       | 2018           |                |
|---|---------------------|-----------------------|----------------|----------------|
|   | Associates          | Joint Venture         | Associates     | Joint Venture  |
| Group's share of:                         |                     |                       |                |                |
| Profit (loss) for the year                | <b>₱36,240,500</b>  | <b>(₱68,913,997)</b>  | (₱50,019,834)  | (₱239,597,739) |
| Other comprehensive income for the year   | -                   | -                     | -              | -              |
| Total comprehensive income for the year   | <b>₱36,240,500</b>  | <b>(₱68,913,997)</b>  | (₱50,019,834)  | (₱239,597,739) |
| Group's share of dividends for the year   | <b>₱2,000,000</b>   | <b>₱48,693,162</b>    | ₱4,000,000     | ₱79,454,916    |
| Group's carrying amount of the investment | <b>₱546,086,425</b> | <b>₱3,731,311,972</b> | ₱1,469,685,159 | ₱1,603,980,183 |

Investment in Subsidiaries

Financial information of subsidiaries that have material non-controlling interest is provided below:

- Portion of equity interest held by non-controlling interest

| Name of Subsidiary                 | Country of Incorporation and Operation | December 31, 2019 | December 31, 2018 |
|------------------------------------|--|-------------------|-------------------|
| Universal Robina Corporation (URC) | Philippines                            | 44.75             | 44.75             |
| Robinsons Land Corporation (RLC)   | Philippines                            | 39.03             | 39.03             |
| Cebu Air, Inc. (CAI)               | Philippines                            | 32.20             | 32.36             |
| Robinsons Bank Corporation (RBC)   | Philippines                            | 40.00             | 40.00             |

- Accumulated balances of material non-controlling interest:

| Name of Subsidiary | 2019            | 2018            |
|--------------------|-----------------|-----------------|
| URC                | ₱44,697,172,077 | ₱36,827,746,372 |
| RLC                | 39,413,894,384  | 36,908,401,233  |
| CAI                | 14,471,966,173  | 12,976,390,179  |
| RBC                | 6,689,122,170   | 6,003,170,626   |

- Profit allocated to material non-controlling interest:

| Name of Subsidiary | 2019           | 2018           |
|--------------------|----------------|----------------|
| URC                | ₱4,797,010,497 | ₱4,100,336,857 |
| RLC                | 3,401,193,211  | 3,214,464,948  |
| CAI                | 2,953,400,776  | 1,269,582,383  |
| RBC                | 275,770,603    | 127,072,982    |

The summarized financial information of subsidiaries with material non-controlling interest are provided below. This information is based on amounts before inter-company eliminations.

- Summarized statement of financial position as at December 31, 2019:

|                        | URC             | RLC             | CAI             | RBC             |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Current assets         | ₱64,844,632,262 | ₱56,779,122,872 | ₱25,970,368,532 | ₱47,939,220,762 |
| Noncurrent assets      | 103,808,357,611 | 132,872,086,889 | 131,762,204,030 | 83,201,717,832  |
| Current liabilities    | 34,933,350,028  | 41,345,192,866  | 42,696,069,925  | 90,539,016,591  |
| Noncurrent liabilities | 38,535,137,651  | 48,228,346,417  | 70,135,526,977  | 23,541,447,635  |

- Summarized statement of financial position as at December 31, 2018:

|                        | URC             | RLC             | CAI             | RBC             |
|------------------------|-----------------|-----------------|-----------------|-----------------|
| Current assets         | ₱54,409,734,482 | ₱52,959,404,988 | ₱25,944,665,488 | ₱54,219,418,440 |
| Noncurrent assets      | 97,525,978,928  | 121,198,755,297 | 103,446,817,028 | 67,131,219,469  |
| Current liabilities    | 31,968,500,498  | 32,109,366,244  | 34,702,883,709  | 96,452,774,656  |
| Noncurrent liabilities | 35,973,733,642  | 48,129,077,536  | 54,586,465,528  | 12,520,309,461  |

- Summarized statements of comprehensive income for 2019:

|  | URC              | RLC             | CAI             | RBC            |
|--|------------------|-----------------|-----------------|----------------|
| Revenue  | ₱134,174,527,579 | ₱30,583,835,565 | ₱84,806,810,363 | ₱8,121,662,955 |
| Profit for the year from continuing operations | 10,114,683,777   | 8,692,609,758   | 9,122,952,680   | 719,426,508    |
| Total comprehensive income                     | 11,004,041,325   | 8,763,698,639   | 9,125,843,406   | 1,712,920,576  |
| Dividends paid to non-controlling interests    | 3,395,036,779    | 1,019,391,907   | 1,354,532,703   | -              |

▪ Summarized statements of comprehensive income for 2018:

|  | URC              | RLC             | CAI             | RBC            |
|--|------------------|-----------------|-----------------|----------------|
| Revenue  | ₱127,769,949,329 | ₱29,545,313,891 | ₱74,113,776,885 | ₱6,132,382,567 |
| Profit for the year from continuing operations | 9,462,786,222    | 8,223,964,585   | 3,922,744,538   | 317,113,802    |
| Total comprehensive income                     | 11,304,232,869   | 8,244,577,443   | 3,929,651,955   | (635,921,001)  |
| Dividends paid to non-controlling interests    | 3,445,317,586    | 729,728,560     | 893,435,847     | -              |

▪ Summarized statements of comprehensive income for 2017:

|  | URC              | RLC             | CAI             | RBC            |
|--|------------------|-----------------|-----------------|----------------|
| Revenue  | ₱125,007,824,013 | ₱22,516,817,630 | ₱68,029,131,426 | ₱4,475,828,582 |
| Profit for the year from continuing operations | 11,152,921,333   | 5,884,437,957   | 7,907,846,625   | 307,387,382    |
| Total comprehensive income                     | 9,779,867,728    | 5,991,091,275   | 7,946,678,505   | 125,117,191    |
| Dividends paid to non-controlling interests    | 3,123,891,519    | 575,177,717     | 545,988,573     | -              |

▪ Summarized statements of cash flows for 2019:

|                                 | URC             | RLC              | CAI              | RBC              |
|---------------------------------|-----------------|------------------|------------------|------------------|
| Operating                       | ₱15,610,917,681 | ₱18,130,230,953  | ₱29,244,053,595  | (₱9,399,941,980) |
| Investing                       | (1,753,099,045) | (15,658,603,768) | (20,812,478,783) | 1,891,070,934    |
| Financing                       | (6,396,659,690) | 2,044,970,511    | (6,601,315,417)  | 4,184,060,808    |
| Effect of exchange rate changes | -               | -                | (527,534,227)    | 9,141,111        |
| Net cash flows                  | ₱7,461,158,946  | ₱4,516,597,696   | ₱1,302,725,168   | (₱3,315,669,127) |

▪ Summarized statements of cash flows for 2018:

|                                 | URC              | RLC              | CAI              | RBC              |
|---------------------------------|------------------|------------------|------------------|------------------|
| Operating                       | ₱14,657,595,147  | ₱13,290,007,948  | ₱15,287,432,831  | (₱4,985,336,615) |
| Investing                       | (8,680,124,323)  | (17,232,445,256) | (22,906,778,155) | (6,561,366,665)  |
| Financing                       | (7,451,886,703)  | 4,410,823,612    | 8,459,574,791    | 10,436,904,315   |
| Effect of exchange rate changes | -                | -                | 438,876,572      | (17,420,981)     |
| Net cash flows                  | (₱1,474,415,879) | ₱468,386,304     | ₱1,279,106,039   | (₱1,127,219,946) |

▪ Summarized statements of cash flows for 2017:

|                                 | URC             | RLC              | CAI             | RBC             |
|---------------------------------|-----------------|------------------|-----------------|-----------------|
| Operating                       | ₱14,253,577,418 | ₱14,398,844,383  | ₱17,795,224,802 | ₱8,912,846,377  |
| Investing                       | (8,408,012,980) | (24,455,224,823) | (8,788,669,399) | (3,913,532,234) |
| Financing                       | (6,695,748,567) | 10,695,624,386   | (3,747,183,911) | -               |
| Effect of exchange rate changes | -               | -                | 57,930,710      | 9,239,981       |
| Net cash flows                  | (₱850,184,129)  | ₱639,243,946     | ₱5,317,302,202  | ₱5,008,554,124  |

## 15. Investment Properties

Movements in this account follow:

|   | 2019                       |                            |                          |                  |
|---|----------------------------|----------------------------|--------------------------|------------------|
|   | Land and Land Improvements | Buildings and Improvements | Construction In-Progress | Total            |
| <b>Cost</b>                               |                            |                            |                          |                  |
| Balance at beginning of year              | ₱32,721,622,396            | ₱87,262,961,198            | ₱6,314,587,588           | ₱126,299,171,182 |
| Additions                                 | 950,264,717                | 2,754,948,866              | 6,355,317,188            | 10,060,530,771   |
| Disposals/transfers and other adjustments | (460,777,966)              | 5,018,457,870              | (5,657,635,207)          | (1,099,955,303)  |
| Balance at end of year                    | 33,211,109,147             | 95,036,367,934             | 7,012,269,569            | 135,259,746,650  |

(Forward)

| 2019   |                               |                               |                             |                        |
|--|-------------------------------|-------------------------------|-----------------------------|------------------------|
|  | Land and Land<br>Improvements | Buildings and<br>Improvements | Construction<br>In-Progress | Total                  |
| <b>Accumulated Depreciation and Amortization</b> |                               |                               |                             |                        |
| Balance at beginning of year                     | ₱158,981,682                  | ₱32,288,559,129               | ₱-                          | ₱32,447,540,811        |
| Depreciation and amortization                    | 26,209,217                    | 4,031,059,216                 | -                           | 4,057,268,433          |
| Disposals/transfers and other adjustments        | (789,146)                     | (271,849,900)                 | -                           | (272,639,046)          |
| Balance at end of year                           | 184,401,753                   | 36,047,768,445                | -                           | 36,232,170,198         |
| <b>Allowance for Impairment Losses</b>           |                               |                               |                             |                        |
| Balance at beginning of year                     | 23,214,800                    | 11,444,696                    | -                           | 34,659,496             |
| Reversal of impairment losses                    | (470,209)                     | (3,353,416)                   | -                           | (3,823,625)            |
| Disposals/transfers/other adjustments            | 3,185,602                     | (6,691,057)                   | -                           | (3,505,455)            |
| Balance at end of year                           | 25,930,193                    | 1,400,223                     | -                           | 27,330,416             |
| <b>Net Book Value at End of Year</b>             | <b>₱33,000,777,201</b>        | <b>₱58,987,199,266</b>        | <b>₱7,012,269,569</b>       | <b>₱99,000,246,036</b> |

| 2018   |                               |                               |                             |                        |
|--|-------------------------------|-------------------------------|-----------------------------|------------------------|
|  | Land and Land<br>Improvements | Buildings and<br>Improvements | Construction<br>In-Progress | Total                  |
| <b>Cost</b>                                      |                               |                               |                             |                        |
| Balance at beginning of year                     | ₱31,604,452,318               | ₱74,859,786,709               | ₱9,421,994,196              | ₱115,886,233,223       |
| Additions  | 2,267,039,561                 | 4,211,032,313                 | 5,022,122,827               | 11,500,194,701         |
| Disposals/transfers and other adjustments        | (1,149,869,483)               | 8,192,142,176                 | (8,129,529,435)             | (1,087,256,742)        |
| Balance at end of year                           | 32,721,622,396                | 87,262,961,198                | 6,314,587,588               | 126,299,171,182        |
| <b>Accumulated Depreciation and Amortization</b> |                               |                               |                             |                        |
| Balance at beginning of year                     | 228,654,456                   | 28,589,131,604                | -                           | 28,817,786,060         |
| Depreciation and amortization                    | 19,795,874                    | 3,711,402,192                 | -                           | 3,731,198,066          |
| Disposals/transfers and other adjustments        | (89,468,648)                  | (11,974,667)                  | -                           | (101,443,315)          |
| Balance at end of year                           | 158,981,682                   | 32,288,559,129                | -                           | 32,447,540,811         |
| <b>Allowance for Impairment Losses</b>           |                               |                               |                             |                        |
| Balance at beginning of year                     | 33,581,998                    | 11,444,696                    | -                           | 45,026,694             |
| Transfers/other adjustments                      | (10,367,198)                  | -                             | -                           | (10,367,198)           |
| Balance at end of year                           | 23,214,800                    | 11,444,696                    | -                           | 34,659,496             |
| <b>Net Book Value at End of Year</b>             | <b>₱32,539,425,914</b>        | <b>₱54,962,957,373</b>        | <b>₱6,314,587,588</b>       | <b>₱93,816,970,875</b> |

Investment properties consist mainly of land held for appreciation, shopping malls or commercial centers, office buildings and warehouses that are held to earn rentals. Also included under this account are the properties acquired by the Group's banking segment through foreclosures. Most of the Group's properties are in prime locations across the Philippines.

Construction in progress amounting to ₱5.7 billion and ₱6.3 billion as of December 31, 2019 and 2018, respectively, represents the cost of ongoing construction and development of malls and office buildings for lease.

Borrowing costs capitalized amounted to ₱0.3 billion in 2019 and 2018. These amounts were included in the consolidated statements of cash flows under additions to investment properties. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization in 2019 and 2018 were 4.59% and 4.50%, respectively.

Consolidated rent income from investment properties included under 'Real estate and hotels revenue' in the consolidated statements of comprehensive income amounted to ₱15.4 billion, ₱13.5 billion and ₱11.6 billion in 2019, 2018 and 2017, respectively.

Property operations and maintenance costs included under "Cost of services" arising from investment properties amounted to ₱680.0 million, ₱791.0 million and ₱710.0 million for the year ended December 31, 2019, 2018 and 2017, respectively.

Gain on sale or retirement and disposal of investment properties amounted to ₱17.4 million, nil and ₱5.3 million for the year ended December 31, 2019, 2018 and 2017, respectively.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on investment properties follows:

|   | 2019                  | 2018           | 2017           |
|---|-----------------------|----------------|----------------|
| Depreciation and amortization expense included under: |                       |                |                |
| Cost of services (Note 33)                            | <b>₱4,023,366,050</b> | ₱3,699,469,319 | ₱3,252,290,952 |
| General and administrative expenses (Note 33)         | <b>33,902,383</b>     | 31,728,747     | 29,513,675     |
|   | <b>₱4,057,268,433</b> | ₱3,731,198,066 | ₱3,281,804,627 |

Collaterals

As of December 31, 2019 and 2018, the Group has no investment properties that are pledged as collateral.

**16. Property, Plant and Equipment**

The composition of and movements in this account follow:

|   | December 31, 2019     |                            |                         |  |   |                          |                       |                         |
|---|-----------------------|----------------------------|-------------------------|--|---|--------------------------|-----------------------|-------------------------|
|   | Land and Improvements | Buildings and Improvements | Machinery and Equipment | Transportation, Furnishing and Other Equipment | Passenger Aircraft and Other Flight Equipment | Construction In-progress | Equipment In-transit  | Total                   |
| <b>Cost</b>   |                       |                            |                         |  |   |                          |                       |                         |
| Balance at beginning of year                            | ₱7,442,844,599        | ₱33,173,487,797            | ₱126,294,624,225        | ₱11,487,154,411                                | ₱104,689,791,895                              | ₱44,352,463,790          | ₱4,970,592,170        | ₱332,360,958,887        |
| Additions   | 427,774,011           | 2,867,328,508              | 6,429,647,355           | 1,119,874,196                                  | 21,166,514,748                                | 29,917,470,239           | 159,279,456           | 62,087,888,513          |
| Additions from acquisition of subsidiaries              | -                     | 29,148,248                 | 659,837,348             | 17,320,616                                     | -   | -                        | -                     | 706,306,212             |
| Transfers, disposals and other adjustments              | 10,318,920            | 91,146,132                 | (1,033,419,124)         | (24,662,623)                                   | (7,656,030,784)                               | (1,062,097,643)          | (26,221,495)          | (9,700,966,617)         |
| Balance at end of year                                  | 7,880,937,530         | 36,161,110,685             | 132,350,689,804         | 12,599,686,600                                 | 118,200,275,859                               | 73,207,836,386           | 5,053,650,131         | 385,454,186,995         |
| <b>Accumulated Depreciation and Amortization</b>        |                       |                            |                         |  |   |                          |                       |                         |
| Balance at beginning of year                            | 1,470,820,843         | 13,856,401,641             | 62,856,801,693          | 8,512,289,254                                  | 25,084,182,445                                | -                        | -                     | 111,780,495,876         |
| Depreciation and amortization                           | 208,112,453           | 1,468,339,249              | 6,945,307,633           | 1,108,404,559                                  | 9,302,025,593                                 | -                        | -                     | 19,032,189,487          |
| Additions from acquisition of subsidiaries              | -                     | 14,747,981                 | 248,628,009             | 14,165,865                                     | -   | -                        | -                     | 277,541,855             |
| Disposals, transfers and other adjustments              | (6,278,337)           | 75,918,067                 | (1,333,356,073)         | 257,177,453                                    | (3,904,593,481)                               | -                        | -                     | (4,911,132,371)         |
| Balance at end of year                                  | 1,672,654,959         | 15,415,406,938             | 68,717,381,262          | 9,892,037,131                                  | 30,481,614,557                                | -                        | -                     | 126,179,094,847         |
| <b>Allowance for Impairment Losses</b>                  |                       |                            |                         |  |   |                          |                       |                         |
| Balance at beginning of year                            | 7,742,527             | 551,043,201                | 1,747,742,728           | 279,328  | -   | -                        | -                     | 2,306,807,784           |
| Provision for (reversal of) impairment losses (Note 34) | -                     | (546,468,790)              | (1,728,326,463)         | -  | -   | -                        | -                     | (2,274,795,253)         |
| Disposals, transfers and other adjustments              | 3,642,527             | (3,379,874)                | -                       | -  | -   | -                        | -                     | 262,653                 |
| Balance at end of year                                  | 11,385,054            | 1,194,537                  | 19,416,265              | 279,328  | -   | -                        | -                     | 32,275,184              |
| <b>Net Book Value at End of Year</b>                    | <b>₱6,196,897,517</b> | <b>₱20,744,509,210</b>     | <b>₱63,613,892,277</b>  | <b>₱2,707,370,141</b>                          | <b>₱87,718,661,302</b>                        | <b>₱73,207,836,386</b>   | <b>₱5,053,650,131</b> | <b>₱259,242,816,964</b> |

December 31, 2018

|  | Land and Improvements | Buildings and Improvements | Machinery and Equipment | Transportation, Furnishing and Other Equipment | Passenger Aircraft and Other Flight Equipment | Construction In-progress | Equipment In-transit  | Total                   |
|--|-----------------------|----------------------------|-------------------------|--|---|--------------------------|-----------------------|-------------------------|
| <b>Cost</b>                                      |                       |                            |                         |  |   |                          |                       |                         |
| Balance at beginning of year                     | ₱7,102,838,110        | ₱29,781,967,423            | ₱121,468,952,851        | ₱10,583,845,248                                | ₱85,908,358,248                               | ₱24,866,859,950          | ₱3,183,030,492        | ₱282,895,852,322        |
| Additions  | 131,066,892           | 3,408,373,724              | 4,531,062,886           | 1,162,349,518                                  | 6,634,126,741                                 | 39,600,286,916           | 1,356,252,555         | 56,823,519,232          |
| Additions from acquisition of subsidiaries       | —                     | —                          | 181,982,136             | 10,703,067                                     | —   | 55,718                   | —                     | 192,740,921             |
| Transfers, disposals and other adjustments       | 208,939,597           | (16,853,350)               | 112,626,352             | (269,743,422)                                  | 12,147,306,906                                | (20,114,738,794)         | 381,309,123           | (7,551,153,588)         |
| Balance at end of year                           | 7,442,844,599         | 33,173,487,797             | 126,294,624,225         | 11,487,154,411                                 | 104,689,791,895                               | 44,352,463,790           | 4,920,592,170         | 332,360,958,887         |
| <b>Accumulated Depreciation and Amortization</b> |                       |                            |                         |  |   |                          |                       |                         |
| Balance at beginning of year                     | 1,256,596,074         | 12,411,096,106             | 56,318,900,591          | 7,559,417,359                                  | 21,384,569,881                                | —                        | —                     | 98,930,580,011          |
| Depreciation and amortization                    | 215,316,062           | 1,388,834,667              | 6,640,689,832           | 958,605,009                                    | 7,311,617,724                                 | —                        | —                     | 16,515,063,294          |
| Additions from acquisition of subsidiaries       | —                     | —                          | 66,706,309              | 8,407,032                                      | —   | —                        | —                     | 75,113,341              |
| Disposals, transfers and other adjustments       | (1,091,293)           | 56,470,868                 | (169,495,039)           | (14,140,146)                                   | (3,612,005,160)                               | —                        | —                     | (3,740,260,770)         |
| Balance at end of year                           | 1,470,820,843         | 13,856,401,641             | 62,856,801,693          | 8,512,289,254                                  | 25,084,182,445                                | —                        | —                     | 111,780,495,876         |
| <b>Allowance for Impairment Losses</b>           |                       |                            |                         |  |   |                          |                       |                         |
| Balance at beginning of year                     | 7,742,527             | 551,043,201                | 1,746,042,936           | 279,328  | —   | —                        | —                     | 2,305,107,992           |
| Provision for impairment losses (Note 34)        | —                     | —                          | 1,699,792               | —  | —   | —                        | —                     | 1,699,792               |
| Balance at end of year                           | 7,742,527             | 551,043,201                | 1,747,742,728           | 279,328  | —   | —                        | —                     | 2,306,807,784           |
| <b>Net Book Value at End of Year</b>             | <b>₱5,964,281,229</b> | <b>₱18,766,042,955</b>     | <b>₱61,690,079,804</b>  | <b>₱2,974,585,829</b>                          | <b>₱79,605,609,450</b>                        | <b>₱44,352,463,790</b>   | <b>₱4,920,592,170</b> | <b>₱218,273,655,227</b> |

In July 2018, CFC Corporation executed a Memorandum of Agreement and Deed of Absolute Sale with a related party, selling its parcel of land costing ₱3.4 million at ₱622.2 million selling price. Gain on disposal attributable to sale was ₱581.5 million, which was recognized under 'Other income (loss) - net' in the consolidated statements of comprehensive income.

In May 2017, Century Pacific Food Inc. (CNPF) entered into an asset purchase agreement with URC to purchase the machineries and equipment used in manufacturing the Hunt's branded products for a total consideration of ₱145.1 million, net of tax. The Group recognized gain on disposal amounting to ₱117.0 million, under 'Other income (losses)' in the consolidated statements of comprehensive income. The sale was completed on August 31, 2017.

CNPF also entered into a Compensation Agreement with URC to acquire the exclusive right to manufacture and sell Hunt's branded products amounting to ₱214.2 million. The Group recognized gain of the same amount under 'Other income (losses)' in the consolidated statements of comprehensive income.

In January 2017, URC executed a Memorandum of Agreement and Deed of Absolute Sale with a related party, selling its three parcels of land costing ₱1.0 million for a total consideration of ₱111.3 million. Gain on disposal attributable to sale amounted to ₱110.3 million, which was recognized under 'Other income (loss) - net' in the consolidated statements of comprehensive income.

In 2019, following the review of the Petrochemical business, the outlook for the industry and Petrochemical's operating plan, the Group recognized a reversal of impairment loss amounting to ₱2.3 billion in 2019. The Group is currently expanding its Naphtha Cracker Plant capacity, which is expected to be completed in 2020. This expansion will generate economies of scale that will decrease the Group's olefins costs and lead to significantly higher polymer margins.

The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management. The projected cash flows have been updated to reflect demand for JGSPC's products. The pre-tax discount rate applied to cash flow projections is 13.76% and cash flows beyond one-year period are extrapolated using a 3.77% growth rate, consistent with the long-term average growth rate for petrochemical industry.

#### Construction in-progress

##### *CAI*

Construction in-progress represents the cost of aircraft and engine modifications in progress and buildings and improvements and other ground property under construction. Construction in-progress is not depreciated until such time when the relevant assets are completed and available for use. As of December 31, 2019 and 2018, the Group's pre-delivery payments capitalized as construction in-progress amounted to ₱17.7 billion and ₱14.3 billion, respectively.

##### *URC*

Construction-in-progress amounting to ₱9.1 billion and ₱7.8 billion as of December 31, 2019 and 2018, respectively, represents costs of ongoing expansion and constructions of plants.

##### *JGSOC*

Construction-in-progress amounting to ₱16.9 billion and ₱9.1 billion as of December 31, 2019 and 2018, respectively, represents the construction costs of the Naphtha Cracker Plant. The plant is intended for the production primarily of polymer grade ethylene, polymer grade propylene, partially hydrogenated pyrolysis gasoline and pyrolysis fuel oil.

*JGSPC*

Construction-in-progress amounting to ₱29.0 billion and ₱12.7 billion as of December 31, 2019 and 2018, respectively, represents the expansion and rehabilitation of polypropylene and polyethylene plant.

Depreciation and Amortization

The breakdown of consolidated depreciation and amortization on property, plant and equipment follows:

|   | 2019                   | 2018            | 2017            |
|---|------------------------|-----------------|-----------------|
| General and administrative expenses (Note 33) | <b>₱10,288,831,103</b> | ₱8,491,559,939  | ₱7,970,903,733  |
| Cost of sales (Note 33)                       | <b>7,856,443,308</b>   | 7,266,240,029   | 6,731,387,202   |
| Cost of services (Note 33)                    | <b>886,915,076</b>     | 757,263,326     | 661,823,149     |
|   | <b>₱19,032,189,487</b> | ₱16,515,063,294 | ₱15,364,114,084 |

Property, Plant and Equipment Pledged as Collateral

*Passenger aircraft held as securing assets under various loans*

CAI entered into various Export Credit Agency (ECA) loans and commercial loan facilities to finance the purchase of its aircraft and engines. As of December 31, 2019 and 2018, the Group's passenger aircraft and engines held as securing assets under various loans are as follows:

|            | 2019             |           | 2018             |           |
|------------|------------------|-----------|------------------|-----------|
|            | Commercial Loans | ECA Loans | Commercial Loans | ECA Loans |
| A320 CEO   | 17               | 3         | 17               | 3         |
| ATR 72-500 | -                | 2         | -                | 2         |
| ATR 72-600 | 12               | -         | 12               | -         |
| A321 CEO   | 7                | -         | 7                | -         |
| A321 NEO   | 5                | -         | -                | -         |
| A330 CEO   | 2                | -         | 2                | -         |
|            | <b>43</b>        | <b>5</b>  | <b>38</b>        | <b>2</b>  |

Under the terms of the ECA loan and commercial loan facilities (Note 23), upon the event of default, the outstanding amount of loan (including accrued interest) will be payable by the SPEs. Under the terms of commercial loan facilities from local banks, upon event of default, the outstanding amount of loan will be payable, including interest accrued by CAI. Failure to pay the obligation will allow the respective lenders to foreclose the securing assets.

As of December 31, 2019 and 2018, the carrying amounts of the securing assets (included under the 'Property and equipment' account) amounted to ₱58.4 billion and ₱67.1 billion, respectively.

Forward Sale Agreement

On February 23, 2015, CAI signed a forward sale agreement with a subsidiary of Allegiant Travel Company (collectively known as "Allegiant") covering CAI's four (4) Airbus A319 aircraft. The aircraft were scheduled for delivery on various dates in 2017 and 2018.

Three (3) of the four Airbus A319 were delivered to Allegiant in 2017 and the last Airbus A319 aircraft was delivered in 2018. CAI recognized ₱156.7 million and ₱532.9 million loss on sale in the consolidated statements of comprehensive income in 2018 and 2017, respectively.

On December 18, 2018, CAI signed another forward sale agreement with Allegiant covering three (3) A320 aircraft. The aircraft were delivered to Allegiant on various dates within 2019 and CAI

recognized ₱352.1 million loss on sale in the consolidated statements of comprehensive income in 2019.

In 2019, CAI entered into an engine sale agreement with RRP Engine Leasing Limited for two (2) Rolls-Royce Trent 772B engines, delivered in August and September, which resulted in a gain of ₱126.4 million.

#### Sale and Operating Leaseback

In May and November 2017, the Group entered into a sale and operating leaseback transactions with Ibon Leasing Limited (ILL) and JPA No. 78/79/80/81 Co., Ltd. covering two and four Airbus A320, respectively. The sale of aircraft required the prepayment of outstanding balance of the loan facility attributed to the sold Airbus A320 aircraft. The total amount of loans and breakage costs paid amounted to ₱4.2 billion and ₱12.3 million, respectively. The Group recognized gain on sale of aircraft amounting to ₱635.5 million from these transactions.

In July and August 2018, CAI entered into a sale and operating leaseback transaction with JPA No. 117/118/119 Co., Ltd. covering three (3) Airbus A320. CAI recognized gain on sale of aircraft amounting to ₱110.2 million from these transactions in 2018.

#### Operating Fleet

As of December 31, 2019, the Group's operating fleet follows:

|                             | <b>2019</b> |
|-----------------------------|-------------|
| Leased aircrafts: (Note 42) |             |
| Airbus A320 CEO             | <b>26</b>   |
| Airbus A321 CEO             | <b>7</b>    |
| Airbus A330 CEO             | <b>6</b>    |
| Airbus A321 NEO             | <b>5</b>    |
| Airbus A320 NEO             | <b>4</b>    |
| ATR 72-600                  | <b>1</b>    |
| Owned aircrafts: (Note 23)  |             |
| ATR 72-600                  | <b>12</b>   |
| ATR 72-500                  | <b>8</b>    |
| Airbus A320 CEO             | <b>4</b>    |
| Airbus A330 CEO             | <b>2</b>    |
|                             | <b>75</b>   |

As of December 31, 2018, the Group's operating fleet follows:

|                                  | <b>2018</b> |
|----------------------------------|-------------|
| Owned (Note 23):                 |             |
| Airbus A320 CEO                  | <b>20</b>   |
| ATR 72-500                       | <b>8</b>    |
| ATR 72-600                       | <b>12</b>   |
| Airbus A321 CEO                  | <b>7</b>    |
| Airbus A330 CEO                  | <b>2</b>    |
| Under operating lease (Note 42): |             |
| Airbus A320 CEO                  | <b>16</b>   |
| Airbus A330 CEO                  | <b>6</b>    |
|                                  | <b>71</b>   |

Gain (loss) on sale or retirement of property, plant and equipment amounted to (₱224.2 million), ₱37.1 million and ₱357.6 million in 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, the gross amount of fully depreciated property and equipment which are still in use by the Group amounted to ₱8.4 billion and ₱4.0 billion, respectively.

## 17. Biological Assets

Total biological assets shown in the consolidated statements of financial position follow:

|                    | 2019                | 2018           |
|--------------------|---------------------|----------------|
| Current portion    | <b>₱733,435,525</b> | ₱741,719,637   |
| Noncurrent portion | <b>224,128,072</b>  | 366,184,414    |
|                    | <b>₱957,563,597</b> | ₱1,107,904,051 |

These biological assets consist of:

|                | 2019                | 2018           |
|----------------|---------------------|----------------|
| <b>Swine</b>   |                     |                |
| Commercial     | <b>₱711,301,722</b> | ₱709,045,374   |
| Breeder        | <b>136,695,328</b>  | 278,316,362    |
| <b>Poultry</b> |                     |                |
| Commercial     | <b>22,133,803</b>   | 32,674,263     |
| Breeder        | <b>87,432,744</b>   | 87,868,052     |
|                | <b>₱957,563,597</b> | ₱1,107,904,051 |

The rollforward analysis of this account follows:

|   | 2019                   | 2018            |
|---|------------------------|-----------------|
| Balance at beginning of year  | <b>₱1,107,904,051</b>  | ₱1,678,576,389  |
| Additions   | <b>3,641,918,030</b>   | 3,200,666,651   |
| Disposals   | <b>(3,483,083,335)</b> | (3,303,867,014) |
| Write-down (Note 21)  | <b>(238,990,324)</b>   | -               |
| Gains (loss) arising from changes in fair value less<br>estimated costs to sell | <b>(70,184,825)</b>    | (467,471,975)   |
|   | <b>₱957,563,597</b>    | ₱1,107,904,051  |

As of December 31, 2019 and 2018, the Group has about 209,640 and 232,724 heads of swine, respectively, and about 529,971 and 731,177 heads of poultry, respectively.

## 18. Intangible Assets

The composition and movements in this account follow:

|   | 2019                |                            |                     |                       |                     |                       |                        |
|---|---------------------|----------------------------|---------------------|-----------------------|---------------------|-----------------------|------------------------|
|   | Technology Licenses | Branch licenses and others | Software Costs      | Trademarks and Brands | Product Formulation | Customer Relationship | Total                  |
| <b>Cost</b>   |                     |                            |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | ₱552,331,752        | ₱1,765,776,346             | ₱1,022,979,831      | ₱9,564,461,252        | ₱425,000,000        | ₱2,201,281,165        | ₱15,531,830,346        |
| Additions   | -                   | 46,589                     | 137,839,833         | -                     | -                   | -                     | 137,886,422            |
| Disposals/reclassification/others                     | -                   | -                          | (9,489,560)         | -                     | -                   | -                     | (9,489,560)            |
| Balance at end of year                                | 552,331,752         | 1,765,822,935              | 1,151,330,104       | 9,564,461,252         | 425,000,000         | 2,201,281,165         | 15,660,227,208         |
| <b>Accumulated Amortization and Impairment Losses</b> |                     |                            |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | 552,331,752         | -                          | 551,662,149         | 201,524,581           | -                   | 271,887,272           | 1,577,405,754          |
| Amortization  | -                   | -                          | 149,310,482         | -                     | -                   | 73,357,370            | 222,667,852            |
| Disposals/reclassifications                           | -                   | -                          | (29,106,813)        | -                     | -                   | (9,129,984)           | (38,236,797)           |
| Balance at end of year                                | 552,331,752         | -                          | 671,865,818         | 201,524,581           | -                   | 336,114,658           | 1,761,836,809          |
| <b>Net Book Value at End of Year</b>                  | <b>₱-</b>           | <b>₱1,765,822,935</b>      | <b>₱479,464,286</b> | <b>₱9,362,936,671</b> | <b>₱425,000,000</b> | <b>₱1,865,166,507</b> | <b>₱13,898,390,399</b> |

|   | 2018                |                          |                     |                       |                     |                       |                        |
|---|---------------------|--------------------------|---------------------|-----------------------|---------------------|-----------------------|------------------------|
|   | Technology Licenses | Bank licenses and others | Software Costs      | Trademarks and Brands | Product Formulation | Customer Relationship | Total                  |
| <b>Cost</b>   |                     |                          |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | ₱552,331,752        | ₱1,764,958,905           | ₱891,744,947        | ₱9,564,461,252        | ₱425,000,000        | ₱2,201,281,165        | ₱15,399,778,021        |
| Additions   | -                   | 817,441                  | 196,183,087         | -                     | -                   | -                     | 197,000,528            |
| Disposals/reclassification/others                     | -                   | -                        | (64,948,203)        | -                     | -                   | -                     | (64,948,203)           |
| Balance at end of year                                | 552,331,752         | 1,765,776,346            | 1,022,979,831       | 9,564,461,252         | 425,000,000         | 2,201,281,165         | 15,531,830,346         |
| <b>Accumulated Amortization and Impairment Losses</b> |                     |                          |                     |                       |                     |                       |                        |
| Balance at beginning of year                          | 552,331,752         | -                        | 426,653,503         | 201,524,581           | -                   | 198,236,989           | 1,378,746,825          |
| Amortization  | -                   | -                        | 138,683,706         | -                     | -                   | 78,862,555            | 217,546,261            |
| Disposals/reclassifications                           | -                   | -                        | (13,675,060)        | -                     | -                   | (5,212,272)           | (18,887,332)           |
| Balance at end of year                                | 552,331,752         | -                        | 551,662,149         | 201,524,581           | -                   | 271,887,272           | 1,577,405,754          |
| <b>Net Book Value at End of Year</b>                  | <b>₱-</b>           | <b>₱1,765,776,346</b>    | <b>₱471,317,682</b> | <b>₱9,362,936,671</b> | <b>₱425,000,000</b> | <b>₱1,929,393,893</b> | <b>₱13,954,424,592</b> |

### Technology Licenses

Technology licenses represent the cost of JGSPC's technology and licensing agreements which cover the construction, manufacture, use and sale of PE and PP lines. JGSPC's technology licenses were fully impaired in 2006.

### Branch Licenses and Others

Branch licenses pertain to RBC which amounted to ₱0.9 billion in 2018 and 2017. Others include intangible assets which arose from the acquisition of Cebgo, Inc. These assets represent CAI's costs to establish brand and market opportunities under the strategic alliance with Cebgo, Inc. amounting to ₱852.2 million.

Branch licenses have been allocated to the branch banking group as the cash-generating units (CGU) for impairment testing.

The recoverable amount of the CGU has been determined based on value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period.

Key assumptions in value-in-use calculation of CGUs follow:

- Balance sheet items  
Deposit levels are based on projected bank-wide plan, with varying growth of 5.0% to 20.0% depending on product type. Cash on hand is based on 3.0% of total deposits derived from historical average. Loan levels are based on historical growth, assuming a linear trend function. Past due receivables and/or real and other properties are a function of loan levels, while other assets are a function of fund source levels. Reserve requirements include 18.0% of peso deposits.

- **Income statement items**  
Historical or average interest rates are used for loan interest income. For theoretical income from branch funds, peso-denominated accounts are pegged on the average high cost rate while foreign currency-denominated accounts use average interest derived from blended foreign currency-denominated funds. Other income is based on incremental growth ratios derived from the market's perceived response and assumed marketing efforts on the bank's products and services. Interest expense is computed using 0.3% for current and savings accounts, 4.8% for time deposits and special savings accounts, and 0.9% for foreign currency deposits. Operating expenses have 7% benchmark for increments.
- **Net present value computation**  
Terminal value is the growth rate based on the bank-wide average balance sheet spread, plus weighted average cost of capital. The discount rate is the weighted average cost of capital derived using actual levels.

#### Trademarks, Product Formulation, Brands and Customer Relationships

Trademarks and product formulation were acquired from General Milling Corporation in 2008. Total intangible assets acquired from the acquisition of CSPL and Griffin's in 2016 and 2014, respectively, were composed of brands of ₱9.3 billion, customer relationships of ₱2.2 billion and software costs of ₱56.3 million.

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of December 31, 2019 and 2018. The recoverable amounts of goodwill and other intangible assets were determined based on value-in-use calculations for goodwill allocated to UABCL and the Balayan Sugar Mill, and fair value less costs to sell (FVLCTS) for goodwill allocated to CSPL and NZSFHL.

Value-in-use calculations used cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 8.3% to 10.5% and 7.8% to 10.8% for the years ended December 31, 2019 and 2018, respectively. The following assumptions were also used in computing value-in-use:

*Growth rate estimates* - growth rates include long-term and terminal growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates. Growth rates used in computing the projected future cash flows ranged from 2.0% to 6.9% and 2.0% to 12.1% as of December 31, 2019 and 2018, respectively.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

FVLCTS of CSPL and NZSFHL were based on enterprise values that were derived from EBITDA multiples. This fair value measurement is categorized as a Level 2 fair value measurement, since it is observable from the recent transaction.

Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying values of goodwill and intangible assets arising from the Group's acquisitions to materially exceed their recoverable amounts.

## 19. Goodwill

Movements in the Group's goodwill account follow:

|                                      | 2019                   | 2018            |
|--------------------------------------|------------------------|-----------------|
| <b>Cost</b>                          |                        |                 |
| Balance at beginning and end of year | <b>₱32,276,536,238</b> | ₱32,276,536,238 |
| <b>Accumulated Impairment Losses</b> |                        |                 |
| Balance at beginning                 | <b>270,931,882</b>     | 253,352,295     |
| Impairment loss (Note 34)            | -                      | 17,579,587      |
| Balance at end of year               | <b>270,931,882</b>     | 270,931,882     |
| <b>Net Book Value at End of Year</b> | <b>₱32,005,604,356</b> | ₱32,005,604,356 |

The Group's goodwill pertains to: (a) the acquisition of LSB in December 2012, (b) the acquisition of Advanson in December 2007, (c) the acquisition of Acesfood in May 2007, (d) the excess of the acquisition cost over the fair values of the net assets acquired by Hongkong China Foods Co., Ltd. (HCFCL) and URC Asean Brands Co., Ltd. (UABCL) in 2000, (e) the acquisition of Southern Negros Development Corporation (SONEDCO) in 1998, (f) the acquisition of Cebgo, Inc. (formerly Tiger Airways Philippines (TAP)) and Griffin's Good Limited (Griffin's) in 2014, (g) acquisition of Balayan Sugar Mill and Consolidated Snacks Pty Ltd. (CSPL) in 2016.

Goodwill is not amortized and is non-deductible for tax purposes.

### *Acquisition of CSPL/Griffin's/UABCL/Balayan*

Goodwill arising from the acquisition of CSPL (amounting to ₱16.5 billion) and Griffin's (amounting ₱13.9 billion) is mainly attributable to synergies formed between URC and CSPL, and URC and Griffin's, respectively.

The Group performed its annual impairment test on its goodwill and other intangible assets with indefinite useful lives as of December 31, 2019 and 2018. The recoverable amounts of goodwill and other intangible assets were determined based on value-in-use calculations for goodwill allocated to UABCL and the Balayan Sugar Mill. For goodwill allocated to CSPL and NZSFHL, the recoverable amounts of goodwill and other intangible assets were determined based on fair value less costs to sell (FVLCTS) in 2019 and value-in-use calculations in 2018.

Value-in-use calculations used cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rates applied to cash flow projections range from 8.3% to 10.5% and 7.8% to 10.8% for the years ended December 31, 2019 and 2018, respectively. The following assumptions were also used in computing value-in-use:

*Growth rate estimates* - growth rates include long-term and terminal growth rates that are based on experiences and strategies developed for the various subsidiaries. The prospect for the industry was also considered in estimating the growth rates. Growth rates used in computing the projected future cash flows ranged from 2.0% to 6.9% and 2.0% to 12.1% as of December 31, 2019 and 2018, respectively.

*Discount rates* - discount rates were estimated based on the industry weighted average cost of capital, which includes the cost of equity and debt after considering the gearing ratio.

FVLCTS of CSPL and NZSFHL were based on enterprise values that were derived from EBITDA multiples. These enterprise values served as basis for the transaction price in the sale of 40% ownership

interest in the Oceania business (Note 22). A common EBITDA multiple of 13.9 was applied to the actual 2018 EBITDA, and carrying amount of external debts were deducted from this amount to arrive at the enterprise value of each CGU. This fair value measurement is categorized as a Level 2 fair value measurement, since it is observable from the recent transaction.

Management believes that no reasonably possible changes in any of the above key assumptions would cause the carrying values of goodwill and intangible assets arising from the Group's acquisitions to materially exceed their recoverable amounts.

*Acquisition of Cebgo*

Goodwill arising from the acquisition of Cebgo is attributable to the following:

Achievement of Economic Scale

Using CAI's network of suppliers and other partners to improve cost and efficiency of Cebgo, thus, improving Cebgo's overall profit, given its existing market share.

Defensive Strategy

Acquiring a competitor enables CAI to manage overcapacity in certain geographical areas/markets.

**20. Other Noncurrent Assets**

This account consists of:

|   | 2019                   | 2018            |
|---|------------------------|-----------------|
| Advances to suppliers - net of current portion  | <b>₱5,493,255,632</b>  | ₱6,069,214,435  |
| Deferred tax assets (Note 38)                   | <b>2,462,525,846</b>   | 1,965,060,255   |
| Advances to lot owners - net of current portion | <b>1,886,052,753</b>   | 1,471,892,243   |
| Security and miscellaneous deposits             | <b>1,058,800,372</b>   | 1,223,107,715   |
| Utility deposits                                | <b>746,384,122</b>     | 792,181,009     |
| Others  | <b>1,748,350,005</b>   | 1,778,202,998   |
|   | <b>₱13,395,368,730</b> | ₱13,299,658,655 |

Advances to Suppliers

Advances to suppliers pertain to RLC's advance payments to suppliers or contractors which will be applied against the final billing. As of December 31, 2019 and 2018, these advances amount to ₱2.3 billion and ₱1.9 billion, respectively.

As of December 31, 2019 and 2018, advances made for the purchase of various aircraft parts, service maintenance and restoration costs of the aircraft which are expected to be consumed beyond one year from the reporting date amounting to ₱3.2 billion and ₱4.1 billion, respectively.

Advances to Lot Owners

Advances to lot owners consist of advance payments to land owners which will be applied against the acquisition cost of the real properties that will be acquired.

Security Deposits

Security deposits include deposits provided to lessors and maintenance providers for aircraft under operating lease.

Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

Others

As of December 31, 2019, others include deposits to various joint ventures, deferred input VAT, prepaid rent, and repossessed chattels amounting to ₱514.9 million, ₱161.3 million, ₱100.0 million and ₱54.7 million, respectively. The deposits to various joint venture partners represent RLC's share in an ongoing real estate development which will be liquidated at the end of the joint venture agreement. This deposit will be realized through RLC Group's share in the completed units or share in the sales proceeds of the units, depending on the agreement with the other party.

As of December 31, 2018, others include deferred input VAT, prepaid rent, and repossessed chattels amounting to ₱634.3 million, ₱436.0 million, and ₱101.7 million, respectively. As of December 31, 2018, prepaid rent pertains to advance rentals of the 25-year operating lease agreement between Bases Conversion and Development Authority (BCDA) and APVI (an affiliate). The contract is for the long-term and development of approximately 5,000 sqm. Lawton Corporate Center along Lawton Avenue, Bonifacio South, Taguig City. Subsequently, the said contract was assigned to RLC through a Deed of Assignment wherein APVI assigns all its rights, interests, and obligations on the contract of lease with approval of BCDA as provided for under the contract. The said prepaid rent was reclassified to right-of-use asset on January 1, 2019.

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**21. Accounts Payable and Accrued Expenses**

This account consists of:

|  | 2019                    | 2018             |
|--|-------------------------|------------------|
| Deposit liabilities                    | <b>₱82,445,508,193</b>  | ₱66,322,620,879  |
| Trade payables                         | <b>33,909,880,030</b>   | 31,578,205,437   |
| Accrued expenses                       | <b>17,269,726,864</b>   | 18,304,254,089   |
| Airport and other related fees payable | <b>4,366,214,762</b>    | 3,684,830,069    |
| Bills payable                          | <b>2,040,505,751</b>    | 7,436,904,315    |
| Output VAT                             | <b>1,627,770,511</b>    | 802,677,597      |
| Withholding taxes payable              | <b>418,311,398</b>      | 421,234,392      |
| Due to related parties (Note 40)       | <b>114,835,410</b>      | 151,772,743      |
| Dividends payable                      | <b>43,287,603</b>       | 43,304,321       |
| Other payables                         | <b>4,091,331,335</b>    | 3,910,031,575    |
|  | <b>₱146,327,371,857</b> | ₱132,655,835,417 |

Deposit Liabilities

Deposit liabilities represent the savings, demand and time deposit liabilities of RBC and LSB. Of the total deposit liabilities of the RBC and LSB as of December 31, 2019 and 2018, 58.1% and 61.0%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities of the RBC and LBC bear annual fixed interest rates ranging from nil to 3.5% in 2019 and nil to 4.5% in 2018.

As of December 31, 2019 and 2018, the liquidity and statutory reserves of RBC and LSB amounted to ₱12.2 billion in 2019 and ₱16.1 billion in 2018.

The details of 'Interest expense' on 'Deposit liabilities', which are included in the 'Cost of services - Banking' in profit or loss in the consolidated statements of comprehensive income are as follows (see Note 30):

|         | 2019                  | 2018           | 2017           |
|---------|-----------------------|----------------|----------------|
| Savings | <b>₱1,717,487,944</b> | ₱1,519,637,039 | ₱707,442,241   |
| Time    | <b>492,682,489</b>    | 327,159,604    | 318,812,552    |
| LTNCD   | <b>267,893,614</b>    | 221,343,421    | 96,808,815     |
| Demand  | <b>4,334,999</b>      | 3,062,044      | 2,456,744      |
|         | <b>₱2,482,399,046</b> | ₱2,071,202,108 | ₱1,125,520,352 |

#### Long-Term Negotiable Certificates of Deposit (LTNCD)

On May 4, 2017, the BSP approved RBC's issuance of the ₱3.0 billion LTNCD. On June 16, 2017, RBC listed its LTNCD issuance amounting to ₱4.2 billion through the Philippine Dealing and Exchange Corporation. The minimum investment was ₱50,000 with increments of ₱10,000 thereafter. The peso-denominated issue will mature on December 16, 2022 with nominal interest rate of 4.125% and EIR of 4.29%, payable every quarter. On July 6, 2018, the Parent Company issued additional LTNCD amounting to ₱1.8 billion with nominal interest rate of 4.875% and EIR of 5.15% payable every quarter which will mature on January 6, 2024. The proceeds were used to diversify the Parent Company's maturity profile and funding sources and general corporate purposes.

#### Trade Payables

Trade payables are noninterest-bearing and are normally settled on 30- to 60-day terms. Trade payables arise mostly from 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. Obligations arising from purchase of inventories necessary for the daily operations and maintenance of aircraft which include aviation fuel, expendables and consumables, equipment and in-flight supplies, and unpaid billings from suppliers and contractors related to construction activities, are also charged to this account.

#### Accrued Expenses

This account consists of accruals for the following:

|   | 2019                   | 2018            |
|---|------------------------|-----------------|
| Advertising and promotions  | <b>₱4,658,935,241</b>  | ₱5,232,164,541  |
| Landing and take-off, navigational charges, and other aircraft-related expenses | <b>2,751,297,389</b>   | 2,618,424,662   |
| Compensation and benefits   | <b>2,670,889,488</b>   | 2,577,599,999   |
| Accrued interest payable  | <b>2,099,295,845</b>   | 2,366,866,687   |
| Contracted services   | <b>1,339,802,325</b>   | 1,286,968,397   |
| Rental expense  | <b>1,140,981,722</b>   | 1,326,495,687   |
| Taxes and licenses  | <b>889,606,075</b>     | 1,020,969,297   |
| Utilities   | <b>442,654,022</b>     | 457,336,465     |
| Freight and handling costs  | <b>331,755,430</b>     | 376,676,211     |
| Insurance   | <b>55,312,003</b>      | 71,167,953      |
| Royalties   | <b>24,542,020</b>      | 24,210,375      |
| Other accrued expenses  | <b>864,655,304</b>     | 945,373,815     |
|   | <b>₱17,269,726,864</b> | ₱18,304,254,089 |

Other accrued expenses include accruals for travel and transportation, commission, communication, repairs and maintenance, restructuring provision and other professional and legal fees.

In 2019, URC recorded a restructuring provision related to downsizing of farm operations and consolidation of plant operations. The key objectives of the restructuring are: (a) to focus on the profitable and growing animal nutrition and health business, (b) maximize the value-added chain concentrating on the processed meat business and (c) to improve long-term cost efficiencies for both farm and plant operations. The restructuring provision consists of write-down of biological assets (Note 17), property, plant and equipment (Note 16) and accrual of employee redundancy costs amounting ₱239.0 million, ₱453.7 million and ₱137.1 million, respectively. The related expense is recognized under “Other income (loss)” in the consolidated statement of income.

#### Airport and Other Related Fees Payable

Airport and other related fees payable are amounts payable to the Philippine Tourism Authority and Air Transportation Office Mactan-Cebu International Airport and Manila International Airport Authority arising from aviation security, terminal fees and travel taxes.

#### Other Payables

As of December 31, 2019 and 2018, ‘Other payables’ consist of management bonus and other non-trade payables.

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## 22. Other Current Liabilities

This account consists of:

|  | 2019                   | 2018            |
|--|------------------------|-----------------|
| Unearned transportation revenue                | <b>₱11,881,599,591</b> | ₱11,110,518,032 |
| Current portion of lease liabilities (Note 42) | <b>5,784,084,993</b>   | –               |
| Deposit from lessees (Notes 24 and 42)         | <b>2,928,599,269</b>   | 2,658,678,992   |
| Advances from agents and others                | <b>567,139,322</b>     | 787,104,397     |
| Derivative liabilities (Note 8)                | <b>419,103,569</b>     | 586,107,196     |
| Customer’s deposits                            | <b>408,604,558</b>     | 496,652,512     |
|  | <b>₱21,989,131,302</b> | ₱15,639,061,129 |

#### Unearned Transportation Revenue

Passenger ticket and cargo waybill sales are initially recorded under ‘Unearned transportation revenue’ in the consolidated statements of financial position, until these are recognized under ‘Air transportation revenue’ in profit or loss in the consolidated statements of comprehensive income, when the transportation service is rendered by the Group (or once tickets are flown).

In 2019, unearned transportation revenue consists of unearned passenger revenue and deferred ancillary revenue amounting to ₱10.2 billion and ₱1.7 billion, respectively. In 2018, unearned transportation revenue consists of unearned passenger revenue and deferred ancillary revenue amounting to ₱9.6 billion and ₱1.5 billion, respectively.

Recognized deferred ancillary revenue as of December 31, 2019 and 2018 with the effect of PFRS 15 follows:

|                                      | 2019                    | 2018             |
|--------------------------------------|-------------------------|------------------|
| Balance at January 1                 | <b>₱1,512,384,705</b>   | ₱630,090,664     |
| Deferred during the year             | <b>16,920,218,675</b>   | 13,527,286,250   |
| Recognized to income during the year | <b>(16,708,267,830)</b> | (12,644,992,209) |
| Balance at December 31               | <b>₱1,724,335,550</b>   | ₱1,512,384,705   |

Advances from Agents and Others

Advances from agents and others represent cash bonds required from major sales and ticket offices or agents. This account also includes commitment fees received for the sale and purchase agreement of aircraft.

**23. Short-term and Long-term Debts**

Short-term Debts

Short-term debts consist of:

|   | 2019                   | 2018            |
|---|------------------------|-----------------|
| <b>Parent Company:</b>  |                        |                 |
| Foreign currency - with interest rate of 2.4% in 2019   | <b>₱7,029,403,875</b>  | ₱—              |
| Philippine Peso - with interest rate of 4.7% in 2019  | <b>2,000,000,000</b>   | —               |
|   | <b>9,029,403,875</b>   | —               |
| <b>Subsidiaries:</b>  |                        |                 |
| Foreign currencies - unsecured with interest rates ranging from 2.2% to 4.4% in 2019 and 2.3% to 3.4% in 2018 | <b>9,822,359,631</b>   | 11,042,205,125  |
| Philippine Peso - with interest rates of 4.7% to 4.9% in 2019 and 2.8% to 3.4% in 2018                        | <b>35,195,646,498</b>  | 24,411,518,868  |
|   | <b>45,018,006,129</b>  | 35,453,723,993  |
|   | <b>₱54,047,410,004</b> | ₱35,453,723,993 |

As of December 31, 2019 and 2018, short-term debt of certain subsidiaries denominated in foreign currency and peso include trust receipts payable amounting to ₱27.2 billion and ₱27.0 billion, respectively. The trust receipts payable are secured by the trustee inventories for the same amount (see Note 12).

In 2019, 2018 and 2017, the Group has incurred interest expense on short-term notes amounting to ₱1.4 billion, ₱1.1 billion and ₱780.4 million, respectively (see Note 35).

Long-term Debts

Long-term debts (net of debt issuance costs) consist of:

|  | Maturities | Interest Rates                  | 2019                  | 2018           | Condition |
|--|------------|---------------------------------|-----------------------|----------------|-----------|
| <b>Parent Company:</b>                       |            |                                 |                       |                |           |
| <b>Fixed Rate Retail Bonds:</b>              |            |                                 |                       |                |           |
| <b>₱30.0 billion Fixed Rate Retail Bonds</b> |            |                                 |                       |                |           |
| ₱5.3 billion bonds                           | 2021       | 5.24%                           | <b>₱5,303,582,674</b> | ₱5,295,848,929 | Unsecured |
| ₱0.2 billion bonds                           | 2024       | 5.30%                           | <b>175,550,050</b>    | 175,385,189    | Unsecured |
| ₱24.5 billion bonds                          | 2019       | 5.23%                           | —                     | 24,501,988,135 | Unsecured |
| <b>Term Loans</b>                            |            |                                 |                       |                |           |
| ₱5.0 billion Term Loan                       | 2022       | 4.65%                           | <b>4,986,692,756</b>  | 4,981,826,469  | Unsecured |
| ₱5.0 billion Term Loan                       | 2024       | 4.93%                           | <b>4,932,841,317</b>  | 4,979,548,422  | Unsecured |
|  |            | BDO's 30-day prime rate (5.75%) | <b>9,946,897,483</b>  | 9,932,746,218  | Unsecured |
| ₱10.0 billion Term Loan                      | 2023       | Floating (6.118%)               | <b>4,973,325,079</b>  | 4,966,257,085  | Unsecured |
| ₱5.0 billion Term Loan                       | 2024       | 4.9010%                         | <b>4,964,869,570</b>  | —              | Unsecured |
| ₱7.0 billion Term Loan                       | 2024       | Floating (4.08%)                | <b>6,950,882,915</b>  | —              | Unsecured |
|  |            |                                 | <b>42,234,641,844</b> | 54,833,600,447 |           |

(Forward)

|  | Maturities | Interest Rates            | 2019                    | 2018             | Condition  |
|--|------------|---------------------------|-------------------------|------------------|------------|
| Subsidiaries:                          |            |                           |                         |                  |            |
| Foreign currencies:                    |            |                           |                         |                  |            |
| JGSPL                                  |            |                           |                         |                  |            |
| US\$750.0 million guaranteed Notes     | 2023       | 4.38%                     | <b>₱32,455,021,803</b>  | ₱33,672,157,757  | Guaranteed |
| CAI                                    |            |                           |                         |                  |            |
| USD Commercial loan from foreign banks | 2025       | 3-5%; (US\$ Libor)        | <b>30,470,347,254</b>   | 29,947,602,347   | Secured    |
| JPY Commercial loan                    | 2029       | Less than 1% LIBOR        | <b>8,424,916,122</b>    | –                | Secured    |
| ECA loans (Note 15)                    | 2024       | 2-6%; 1-2% (US\$ Libor)   | –                       | 2,988,657,085    | Secured    |
| URC                                    |            |                           |                         |                  |            |
| NZ\$395.0 million term loan            | 2023       | NZ 3.15% (BKBM+1.10%)     | <b>13,296,756,840</b>   | 13,714,466,044   | Guaranteed |
| AUS\$484.2 million term loan           | 2021       | AU 3.04% (BBSY BID+1.25%) | <b>17,089,320,768</b>   | 17,742,657,838   | - do -     |
| RLC                                    |            |                           |                         |                  |            |
| RMB60 million term loan                | 2022       | RMB 4.75%                 | –                       | 1,268,921,932    | Secured    |
| RMB50 million term loan                | 2019       | RMB 4.75%                 | –                       | 382,205,400      | Unsecured  |
|  |            |                           | <b>101,736,362,787</b>  | 99,716,668,403   |            |
| Philippine Peso:                       |            |                           |                         |                  |            |
| RLC                                    |            |                           |                         |                  |            |
| ₱10.6 billion loan facility            | 2022       | 4.80%                     | <b>10,601,369,418</b>   | 10,586,697,383   | Unsecured  |
| ₱1.4 billion loan facility             | 2025       | 4.93%                     | <b>1,357,154,478</b>    | 1,355,939,617    | - do -     |
| ₱4.5 billion loan facility             | 2027       | 4.95%                     | <b>4,472,866,455</b>    | 4,475,914,536    | - do -     |
| ₱7.0 billion loan facility             | 2024       | 4.75%                     | <b>6,837,575,949</b>    | 6,972,884,097    | - do -     |
| ₱6.5 billion loan facility             | 2021       | 3.83%                     | <b>6,489,197,118</b>    | 6,482,437,308    | - do -     |
| ₱5.0 billion loan facility             | 2023       | 3.89%                     | <b>4,957,108,758</b>    | 4,963,538,728    | - do -     |
| JGSPL                                  |            |                           |                         |                  |            |
| ₱19.5 billion term loan                | 2024       | Floating (4.08% to 5.4%)  | <b>19,508,000,000</b>   | –                |            |
| JGSOC                                  |            |                           |                         |                  |            |
| ₱2.5 billion term loan                 | 2024       | 6.64% and 6.62%           | <b>2,492,000,000</b>    | –                |            |
| CAI                                    |            |                           |                         |                  |            |
| Commercial loans                       | 2026       | 5%-7% (BVAL)              | <b>18,249,257,900</b>   | 20,861,286,829   | Guaranteed |
|  |            |                           | <b>74,964,530,076</b>   | 55,698,698,498   |            |
|  |            |                           | <b>218,935,534,707</b>  | 210,248,967,348  |            |
| Less current portion                   |            |                           | <b>6,819,093,642</b>    | 30,962,269,832   |            |
|  |            |                           | <b>₱212,116,441,065</b> | ₱179,286,697,516 |            |

The foreign exchange rate used to revalue the foreign currency borrowings was ₱50.635 to US\$1 and ₱52.58 to US\$1.00 as of December 31, 2019 and 2018, respectively.

Long-term debt to foreign banks is shown net of unamortized debt issuance costs totaling ₱388.3 million and ₱536.1 million as of December 31, 2019 and 2018, respectively. Unamortized debt issuance cost related to peso-denominated long-term debt amounted to ₱104.7 million and ₱166.4 million as of December 31, 2019 and 2018, respectively.

Repayments of the long-term debt (gross of debt issuance costs) follow:

|            | 2019                    | 2018             |
|------------|-------------------------|------------------|
| Due in:    |                         |                  |
| 2019       | <b>₱–</b>               | ₱44,715,621,809  |
| 2020       | <b>6,819,093,642</b>    | 6,409,024,635    |
| Thereafter | <b>212,116,441,065</b>  | 279,737,843,083  |
|            | <b>₱218,935,534,707</b> | ₱330,862,489,527 |

The details of the Group's long-term debt follow:

#### Subsidiaries' Foreign Currency Loans

##### *JGSPL 4.375% Senior Unsecured Notes Due 2023*

On January 24, 2013, JGSPL issued US\$750.0 million, 4.375% senior unsecured notes due 2023. The notes are unconditionally and irrevocably guaranteed by the Parent Company.

#### *CAI USD Commercial Loans from Foreign Banks*

On various dates from 2007 to 2019, CAI entered into commercial loan facilities to partially finance the purchase of 19 Airbus A320 aircraft, seven (7) Airbus A321 CEO aircraft, five (5) aircraft engines, and one (1) Airbus A321 NEO aircraft. The security trustees of these commercial loan facilities established SPEs – PTALL, PTHALL, SAALL, SBALL, SCALL, SDALL, TOADAC and RALL – which purchased the aircraft from CAI pursuant to (a) five to ten-year finance lease arrangement for the Airbus A320, A321 CEO, and A321 NEO aircraft; and (b) six-year finance lease arrangement for the engines. CAI has the option to purchase the aircraft and the engines for a nominal amount at the end of such leases. The lease rentals made by CAI to these SPEs correspond to the loan payments made by the SPEs to the commercial facility lenders.

In 2018, CAI prepaid the US dollar loan facilities for ten (10) Airbus A320 aircraft resulting to dissolution of PTHALL, SAALL and SBALL (Note 1). CAI subsequently entered into four (4) Philippine peso commercial loan facilities and six (6) USD commercial loans for the same aircraft. CAI also prepaid the loan facilities of the engines and entered into US dollar commercial loans to finance the acquisition of seven (7) Airbus A321 CEO aircraft.

In 2019, CAI entered into a US dollar commercial loan facility to finance the acquisition of one (1) Airbus A321NEO aircraft.

The terms of the CAI commercial loans from foreign banks follow:

- Term of ten years starting from the delivery date of each aircraft.
- Combination of annuity style and equal principal repayments made on a semi-annual and quarterly basis.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.

As of December 31, 2019 and 2018, the total outstanding balance of the US dollar commercial loans amounted to ₱30.5 billion (US\$601.8 million) and ₱29.9 billion (US\$569.6 million), respectively. Interest expense amounted to ₱1.3 billion, ₱1.1 billion and ₱780.6 million in 2019, 2018 and 2017, respectively.

#### *CAI JPY Commercial Loans*

In 2019, CAI entered into a Japanese commercial loans covering four (4) Airbus A321NEO aircraft. The loan requires semi-annual installments with a maturity not longer than 14 years at a variable interest rate based on JPY LIBOR plus margin.

As of December 31, 2019, the total outstanding balance of the Japanese yen commercial loans amounted to ₱8.4 billion (¥18.2 billion). Interest expense amounted to ₱174.1 million in 2019.

#### *CAI's ECA Loans*

On various dates from 2005 to 2012, CAI entered into ECA-backed loan facilities to partially finance the purchase of ten Airbus A319 aircraft, seven ATR 72-500 turboprop aircraft and ten Airbus A320 aircraft. The security trustee of the ECA loans established SPEs, namely CALL, BLL, SLL, SALL, VALL and POALL, which purchased the aircraft from the supplier and leases such aircraft to CAI pursuant to (a) ten-year finance lease arrangement for the ATR 72-500 turboprop aircraft and (b) twelve-year finance lease arrangement for the Airbus A319 and A320 aircraft. The quarterly and semi-annual rental payments made by CAI to these SPEs correspond to the principal and interest payments

made by the SPEs to the ECA-backed lenders. CAI has the option of purchasing the aircraft for a nominal amount at the end of such leases.

In 2015 to 2017, CAI exercised the purchase option on ten Airbus A319 aircraft, which were then sold to a third party as part of a forward sale arrangement. The purchase required the prepayment of the balance of the loan facility attributed to the sold Airbus A319 aircraft.

In 2017, CAI prepaid the ECA Loans covering four (4) Airbus A320. In 2018, CAI exercised the option to purchase five (5) ATR 72-500 aircraft upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) Airbus A320 CEO.

As of December 31, 2018, the terms of the remaining ECA-backed facilities follow:

- Term of 12 years starting from the delivery date of each Airbus A320 aircraft and ten years for each ATR 72-500 turboprop aircraft.
- Combination of annuity style and equal principal repayments for the ATR 72-500 turboprop aircraft and Airbus A320 aircraft. Principal repayments shall be made on a semi-annual basis for ATR 72-500 turboprop aircraft. Principal repayments shall be made on a quarterly basis for A320 aircraft.
- Mixed interest rates with fixed annual interest rates ranges from 3.00% to 5.00% and variable rates based on US dollar LIBOR plus margin.
- Other than what is permitted by the transaction documents or the ECA administrative parties, the SPEs cannot create or allow to exist any other security interest.
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the ECA lenders will foreclose on secured assets, namely the aircraft.

In 2019, CAI exercised the option to purchase the remaining two (2) ATR 72-500 upon maturity and full payment of their corresponding loan facilities and prepaid the ECA loans covering three (3) more Airbus A320 CEO. As of December 31, 2019, CAI no longer has remaining ECA-backed facilities in its portfolio.

As of December 31, 2019 and 2018, the total outstanding balance of the ECA loans amounted to nil and ₱2,988.7 million (US\$56.8 million), respectively. Interest expense amounted to ₱39.7 million, ₱176.4 million and ₱291.6 million in 2019, 2018 and 2017, respectively.

As of December 31, 2019, CAI is not in breach of any terms on the ECA and commercial loans.

#### *URC NZ Finance Company Limited NZD395 Million Term Loan due 2023*

On October 22, 2018, URC NZ FinCo entered into a term loan facility agreement guaranteed by the Parent Company payable in five years, amounting to NZ\$395.0 million (₱14.4 billion), with various banks for payment of the NZ\$420 million term loan due in 2019. The loan obtained bears a market interest rate plus a certain spread, payable quarterly, and maturing on October 22, 2023.

#### *URC NZ Finance Company Limited NZD420 Million Term Loan due 2019*

On November 13, 2014, URC New Zealand Holding Finance Company, Ltd. (URC NZ FinCo) entered into a secured term loan facility agreement payable in five (5) years, amounting to NZD420.0 million (₱12.6 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, NZ Snack Foods Holdings Limited. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on November 13, 2019. This long-term loan is guaranteed by URC Parent Company.

In October 2018, URC NZ FinCo prepaid its 5-year term loan under Clause 7.1 of the underlying Facility Agreement at face value plus accrued interest. Total payment amounted to NZ\$423.8 million (approximately ₱15.5 billion), which includes accrued interest. The prepayment resulted in the recognition of the unamortized debt issue costs of US\$1.7 million (approximately ₱61.6 million) as expense presented under 'Finance costs' which represents the difference between the settlement amount and the carrying value of the loan at the time of settlement.

*URC Australia Finance Company Limited Term Loan US\$484.2 Million*

On September 30, 2016, URC AU FinCo entered into a secured syndicated term loan facility agreement payable in five (5) years, amounting to AU\$484.2 million (₱17.9 billion), with various banks for payment of acquisition costs and to refinance certain indebtedness of an acquired company, CSPL. The loan obtained bears a market rate plus a certain spread, payable quarterly, maturing on September 30, 2021. This long-term loan is guaranteed by URC Parent Company.

*RLC Five-year loan from Agricultural Bank of China (ABC) maturing in August 2022*

In 2017, Chengdu Xin Yao entered into a facility loan agreement with ABC amounting to RMB500.0 million. On August 22, 2017, RLC made a drawdown amount to ₱458.0 million or RMB60.0 million which is payable after a period of 5 years. Interest on the loan shall be based on the rates released by the People's Bank of China which is 4.75% per annum as of loan agreement date.

In 2018, Chengdu Xin Yao made an additional drawdown amounting to RMB156 million (₱1.2 billion) which is payable on August 19, 2022.

In 2019, the Group pre-terminated and paid in full the total loan from this bank amounting to RMB216 million (₱1.7 billion).

Parent Company's Philippine Peso Loans

*Parent Company ₱30.0 Billion Fixed Rate Retail Bonds*

On February 28, 2014, the Parent Company issued a ₱30.0 billion fixed rate retail bonds. The bond was issued in three series: (1) Five-year bond amounting to ₱24.5 billion fixed at 5.23% due 2019; (2) Seven-year bond amounting to ₱5.3 billion fixed at 5.24% due 2021; and (3) Ten-year bond amounting to ₱176.3 million fixed at 5.30% due 2024. Interest is calculated on a 30/360-day count basis and is payable semi-annually starting August 27, 2014 and the 27th day of February and August of each year thereafter. Net proceeds from the bond issuance were used to partially finance its acquisition of Meralco shares and for general corporate purposes. On February 2019, the Parent Company fully settled its five-year bond amounting to ₱24.5 billion.

*Parent Company ₱5.0 Billion Term Loan with BPI due in July 2022*

On July 6, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with BPI with a fixed rate at 4.65% per annum and shall be payable quarterly in arrears.

*Parent Company ₱5.0 Billion Term Loan with MBTC due in July 2024*

On July 13, 2017, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with MBTC with a fixed rate at 4.93% per annum and shall be payable quarterly in arrears.

*Parent Company ₱10.0 Billion Term Loan with BDO due in June 2023*

On June 8, 2018, the Company borrowed ₱10.0 billion under Term Loan Facility Agreement with BDO. Interest for 2019 and 2018 amounted to ₱563.1 million and ₱259.7 million, respectively. The loan bears an interest based on the bank's 30-day prime rate.

*Parent Company ₱5.0 Billion Term Loan with MBTC due in June 2023*

On June 14, 2018, the Company borrowed ₱5.0 billion under Term Loan Facility Agreement with MBTC. Interest for 2019 and 2018 amounted to ₱261.9 million and ₱113.5 million, respectively. The loan obtained bears a market interest rate plus a certain spread, payable quarterly.

*Parent Company ₱7.0 Billion Term Loan with BPI due in August 2024*

On August 23, 2019, the Parent Company borrowed ₱7.0 billion under Term Loan Facility Agreement with BPI. Interest for 2019 amounted to ₱100.6 million. The loan obtained bears a market interest rate plus a certain spread, payable quarterly.

*Parent Company ₱5.0 Billion Term Loan with PNB due in August 2024*

On August 23, 2019, the Parent Company borrowed ₱5.0 billion under Term Loan Facility Agreement with PNB with a fixed rate at 4.901% per annum and shall be payable quarterly in arrears. Interest for 2019 amounted to ₱87.3 million.

Subsidiaries' Philippine Peso Loans

*RLC ₱10.6 Billion Term Loan due in February 2022*

On February 23, 2015, RLC issued ₱10.6 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.80% per annum.

*RLC ₱1.4 Billion Term Loan due in February 2025*

On February 23, 2015, RLC issued ₱1.4 billion bonds constituting direct, unconditional, unsubordinated, and unsecured obligation obligations of RLC and shall at all times rank pari-passu and without preference among themselves and among any present and future unsubordinated and unsecured obligations of RLC, except for any statutory preference or priority established under Philippine law. The net proceeds of the issue shall be used by RLC to refinance existing debt obligations and to partially fund investment capital expenditures.

Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on February 23 and August 23 of each year at which the bonds are outstanding. Interest rate is 4.93% per annum.

*RLC ₱6.5 Billion Term Loan due in July 2021*

On July 8, 2016, RLC borrowed ₱6.5 billion under Term Loan Facility Agreements with BDO Unibank, Inc.

The loan was released on July 8, 2016 amounting to ₱3.0 billion and on September 27, 2016 amounting to ₱3.5 billion with interest rate at 3.83% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

*RLC ₱5.0 Billion Term Loan due in August 2023*

On August 10, 2016, RLC borrowed ₱5.0 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The ₱5.0 billion loan was released on August 10, 2016 with interest rate at

3.89% per annum and shall be payable quarterly, computed on the basis of a 360-day year and on the actual number of days elapsed.

*RLC ₱7.0 Billion Term Loan due in March 2024*

On March 15, 2017, RLC borrowed ₱7.0 billion million under Term Loan Facility Agreements with Metropolitan Bank & Trust Company. The loan was released on March 15, 2017 amounting to ₱7.0 billion with interest rate at 4.75% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed. Annual principal payment is two percent (2%) of the total loan amount or ₱140 million.

*RLC ₱4.5 Billion Term Loan due February 2027*

On February 10, 2017, RLC borrowed ₱4.5 billion under Term Loan Facility Agreements with Bank of the Philippine Islands. The loan was released on February 10, 2017 amounting to ₱4.5 billion with interest rate at 4.95% per annum and shall be payable quarterly, computed on the basis of a year of 365 calendar days for the actual number of days elapsed.

Partial payment for this loan amounting to ₱5 million was made on February 13, 2019 and 2018.

*CAI Philippine Peso Commercial Loans*

From 2016 to 2017, CAI entered into Philippine peso commercial loan facilities to partially finance the acquisition of eight (8) ATR 72-600 and two (2) Airbus A330 aircraft.

In 2018, CAI entered into Philippine peso commercial loan facilities to partially finance the acquisition of four (4) ATR 72-600 aircraft and refinance four (4) Airbus A320 aircraft.

As of December 31, 2019 and 2018, the terms of the commercial loan facilities follow:

- Term of seven to ten years starting from the delivery dates of each aircraft.
- Twenty eight to forty equal consecutive principal repayments made on a quarterly basis.
- Interests on loans are variable rates based on Philippines Bloomberg Valuation (PH BVAL).
- Upon default, the outstanding amount of loan plus accrued interest will be payable, and the lenders will foreclose on secured assets, namely the aircraft.

As of December 31, 2019 and 2018, the total outstanding Philippine Peso commercial loans amounted to ₱18.2 billion and ₱20.9 billion, respectively. Interest expense incurred from these loans amounted to ₱1.1 billion, ₱826.4 million and ₱349.3 million in 2019, 2018 and 2017, respectively.

The commercial loans are secured by the related aircraft. CAI is required to comply with affirmative and negative covenants until termination of loans.

In 2019, 2018 and 2017, total interest expense on long-term debt amounted to ₱8.5 billion, ₱8.0 billion and ₱6.6 billion, respectively (see Note 35).

In 2019, 2018 and 2017, the Group recognized amortization of bond issue costs amounting to ₱80.7 million, ₱105.2 million and ₱84.2 million, respectively (see Note 35).

Debt Covenants

Certain loan agreements contain provisions which, among others, require the maintenance of specified financial ratios at certain levels and impose negative covenants which, among others, prohibit a merger or consolidation with other entities, dissolution, liquidation or winding-up, except with any of its

subsidiaries; and prohibit the purchase or redemption of any issued shares or reduction of registered and paid-up capital or distribution of assets resulting in capital base impairment.

For the Parent Company's ₱9.0 Billion, ₱5.0 Billion, ₱10.0 Billion, ₱5.0 Billion and ₱5.0 Billion Term Loan Facilities, the Group is required to maintain a financial ratio of Group's total borrowings to Group's shareholders' equity not exceeding 2.0:1.0.

For the Parent Company's ₱30.0 Billion Fixed Rate Retail Bonds, the Group is required to maintain the following financial ratios:

- the Group's current ratio of not less than 0.5:1.0;
- the Group's debt-to-equity ratio of not greater than 2.0:1.0

The commercial loans of CAI are secured by the related aircraft. The Group is required to comply with affirmative and negative covenants until termination of loans.

For the RLC's ₱10.6 Billion Retail Bonds due in February 2022, ₱1.4 Billion Retail Bonds due in February 2025, ₱6.5 Billion Term Loan due in July 2021, ₱5.0 Billion Term Loan due in August 2023, ₱4.5 Billion Term Loan due in February 2027 and ₱7.0 Billion Term Loan due in March 2024, RLC is required to maintain a debt-to-equity ratio not exceeding 2:1 as referenced from its consolidated financial statement as of and for the year end December 31 and consolidated interim financial statements as of March 31. These loans were not guaranteed by the Parent Company.

For the RLC's RMB60 million loan from Agricultural Bank of China (ABC) maturing in August 2022, Chengdu Xin Yao is required to maintain the following financial indicators: (a) actual revenue in its operating period which should not be lower than 20%; (b) debt-asset ratio should not equal or exceed 70%; (c) the borrower should not have a bad credit; and (d) borrower contingent liability ratio should not exceed 4%. Chengdu Xin Yao has complied with the debt covenant as of December 31, 2019.

For JGSPL's US\$750.0 million Senior Unsecured Notes due in 2023, the Parent Company as the guarantor shall procure:

- Consolidated Current Assets to Consolidated Current Liabilities is not at any time less than 0.5:1.0; and
- Consolidated Total Borrowings to Consolidated Stockholders' Equity does not at any time exceed 2:1.

For JGSPL's US\$250.0 million loans due in 2018, the guarantor shall procure that the ratio of Consolidated Total Borrowings to Consolidated Shareholders' Equity does not at any time exceed 2:1.

For the NZ and AU Term loans, the Group is required to maintain consolidated debt-to-equity ratio of not greater than 2.5 to 1.0.

The Group has complied with all of its debt covenants as of December 31, 2019 and 2018.

## 24. Other Noncurrent Liabilities

This account consists of:

|  | 2019                   | 2018            |
|--|------------------------|-----------------|
| Deposit liabilities - net of current portion               | <b>₱21,550,057,957</b> | ₱19,066,221,156 |
| Lease liabilities (Note 42)                                | <b>15,320,069,643</b>  | -               |
| ARO  | <b>6,233,060,774</b>   | 5,982,197,580   |
| Deposit from lessees - net of current portion<br>(Note 42) | <b>3,171,544,926</b>   | 2,650,771,913   |
| Pension liabilities (Note 37)                              | <b>2,693,910,604</b>   | 1,231,409,604   |
| Deferred revenue on rewards program                        | <b>1,234,903,085</b>   | 954,057,251     |
| Derivative liabilities (Note 8)                            | <b>13,507,241</b>      | 177,214,864     |
| Accrued rent expense (Note 42)                             | -                      | 1,608,663,933   |
| Others   | <b>913,374,820</b>     | 1,176,829,128   |
|  | <b>₱51,130,429,050</b> | ₱32,847,365,429 |

### Deposit Liabilities

Deposit liabilities represent time deposit liabilities of RBC and LSB with maturities of beyond 12 months from reporting date.

### ARO

CAI is contractually required under various lease contracts to restore certain leased aircraft to its original condition at its own cost or to bear a proportionate cost of restoration at the end of the contract period. These costs are accrued based on estimates made by CAI's engineers, which include estimates of future aircraft utilization and certain redelivery costs at the end of the lease period. (see Note 3).

URC also has obligations to restore the leased manufacturing sites, warehouses and offices at the end of the respective lease terms. These provisions are calculated as the present value of the estimated expenditures required to remove any leasehold improvements. These costs are currently capitalized as part of the cost of the plant and equipment and are amortized over the shorter of the lease term and the useful life of assets.

The rollforward analysis of the Group's ARO follows:

|                              | 2019                  | 2018           |
|------------------------------|-----------------------|----------------|
| Balance at beginning of year | <b>₱5,982,197,580</b> | ₱3,824,447,419 |
| Provision for ARO            | <b>250,863,194</b>    | 2,157,750,161  |
| Balance at end of year       | <b>₱6,233,060,774</b> | ₱5,982,197,580 |

In 2019, 2018 and 2017, ARO expenses included as part of repairs and maintenance under 'Cost of Sales' amounted to ₱250.9 million, ₱2.2 billion and ₱1.2 billion, respectively (Note 30).

### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 22) represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of the lease term. These are initially recorded at fair value, which is obtained by discounting its future cash flows using the applicable rates of similar types of instruments. The accretion expense on these deposits recorded as part of cost of rental services on the discount amounted to ₱76.0 million, ₱73.0 million and ₱56.0 million in 2019, 2018 and 2017, respectively (Note 30).

The unearned rental income (included under ‘Deposit from lessees’) amounted to ₱756.0 million and ₱604.0 million as of December 31, 2019 and 2018, respectively. The rental income on amortization of unearned rental income amounted to ₱83.0 million, ₱97.0 million and ₱64.0 million in 2019, 2018 and 2017, respectively.

#### Deferred Revenue on Rewards Program

This account pertains to estimated liability under the Getgo lifestyle rewards program.

The rollforward analyses of deferred revenue follow:

|  | 2019                  | 2018          |
|--|-----------------------|---------------|
| Balance at beginning of year                 | <b>₱954,057,251</b>   | ₱720,229,576  |
| Add: Estimated liability on issued points    | <b>924,714,078</b>    | 691,673,529   |
| Subtotal                                     | <b>1,878,771,329</b>  | 1,411,903,105 |
| Less: Estimated liability on redeemed points | <b>246,829,251</b>    | 178,326,243   |
| Estimated liability on expired points        | <b>397,038,993</b>    | 279,519,611   |
| Balance at end of year                       | <b>₱1,234,903,085</b> | ₱954,057,251  |

#### Accrued Rent

Accrued rent expense represents the portion of the lease as a consequence of recognizing expense on a straight-line basis. These pertain to various lease of land entered by the Group where the malls are located.

#### Others

Others include retention payable which represents amounts withheld from payments to contractors as guaranty for any claims against them. These are noninterest-bearing and will be remitted to contractors at the end of the contracted work.

## 25. Equity

Details of the Parent Company’s authorized capital stock as of December 31, 2019 and 2018 follow:

|                             | Par Value | Shares                | Amount                 |
|-----------------------------|-----------|-----------------------|------------------------|
| Common shares               | ₱1.00     | 12,850,800,000        | ₱12,850,800,000        |
| Preferred voting shares     | 0.01      | 4,000,000,000         | 40,000,000             |
| Preferred non-voting shares | 1.00      | 2,000,000,000         | 2,000,000,000          |
|                             |           | <b>18,850,800,000</b> | <b>₱14,890,800,000</b> |

The paid-up capital of the Group consists of the following:

|   |                        |
|---|------------------------|
| Capital stock:                            |                        |
| Common shares - ₱1 par value              | ₱7,162,841,657         |
| Preferred voting shares - ₱0.01 par value | 40,000,000             |
|   | <b>7,202,841,657</b>   |
| Additional paid-in capital                | 23,553,025,157         |
| Total paid-up capital                     | <b>₱30,755,866,814</b> |

#### Preferred Voting Shares

The preferred voting shares have, among others, the following rights, privileges and preferences:

- a. Entitled to vote on all matters involving the affairs of the Parent Company requiring the approval of the stockholders. Each share shall have the same voting rights as a common share.

- b. The shares shall be non-redeemable.
- c. Entitled to dividends at the rate of 1/100 of common shares, such dividends shall be payable out of the surplus profits of the Parent Company so long as such shares are outstanding.
- d. In the event of liquidation, dissolution, receivership or winding up of affairs of the Parent Company, holders shall be entitled to be paid in full at par, or ratably, in so far as the assets of the Parent Company will permit, for each share held before any distribution is made to holders of the common shares.

#### Preferred Non-voting Shares

The preferences, privileges and voting powers of the preferred non-voting shares shall be as follows:

- a. May be issued by the BOD of the Parent Company for such amount (not less than par), in such series, and purpose or purposes as shall be determined by the BOD of the Parent Company.
- b. The shares shall be non-convertible, non-voting, cumulative and non-participating.
- c. May be redeemable at the option of the Parent Company at any time, upon payment of their aggregate par or issue value, plus all accrued and unpaid dividends, on such terms as the BOD of the Parent Company may determine at the time of issuance. Shares so redeemed may be reissued by the Parent Company upon such terms and conditions as the BOD of the Parent Company may determine.
- d. The holders of shares will have preference over holders of common stock in the payment of dividends and in the distribution of corporate assets in the event of dissolution, liquidation or winding up of the Parent Company, whether voluntary or involuntary. In such an event, the holders of the shares shall be paid in full or ratably, insofar as the assets of the Parent Company will permit, the par or issue value of each share held by them, as the BOD of the Parent Company may determine upon their issuance, plus unpaid cumulated dividends up to the current period, before any assets of the Parent Company shall be paid or distributed to the holders of the common shares.
- e. The holders of shares shall be entitled to the payment of current as well as any accrued or unpaid dividends on the shares before any dividends can be paid to the holders of common shares.
- f. The holders of shares shall not be entitled to any other or further dividends beyond that specifically payable on the preferred non-voting shares.
- g. The holders of shares shall not be entitled to vote (except in those cases specifically provided by law) or be voted for.
- h. The holders of shares shall have no pre-emptive rights, options or any other similar rights to subscribe or receive or purchase any or all issues or other disposition of common or other preferred shares of the Parent Company.
- i. The shares shall be entitled to receive dividends at a rate or rates to be determined by the Parent Company's BOD upon their issuance.

#### Record of Registration of Securities with the SEC

Summarized below is the Parent Company's track record of registration of securities under the Securities Regulation Code.

| Date of offering | Type of offering                                   | No. of shares offered       | Par value | Offer price | Authorized number of shares  | Issued and outstanding shares |
|------------------|--|-----------------------------|-----------|-------------|--|-------------------------------|
| June 30, 1993    | Registration of authorized capital stock           | —                           | ₱1.00     | ₱—          | 12,850,800,000 common shares and 2,000,000,000 preferred non-voting shares | —                             |
| June 30, 1993    | Initial public offering (IPO)                      | 1,428,175,000 common shares | 1.00      | 4.40        | —  | 1,428,175,000 common shares   |
| June 30, 1994    | Conversion of convertible bonds into common shares | 428,175,000 common shares   | 1.00      | 13.75       | —  | 3,725,457 common shares       |
| July 3, 1998     | Stock rights offering (1:2)                        | 2,060,921,728 common shares | 1.00      | 2.00        | —  | 2,060,921,728 common shares   |

The table below provides information regarding the number of stockholders of the Parent Company as of December 31, 2019, 2018 and 2017:

|                         | 2019  | 2018  | 2017  |
|-------------------------|-------|-------|-------|
| Common shares           | 1,002 | 1,017 | 1,033 |
| Preferred voting shares | 1     | 1     | 1     |

### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group monitors its use of capital structure using a debt-to-capital ratio which is gross debt divided by total capital. The Group includes within gross debt all interest-bearing loans and borrowings and derivative liabilities, while capital represents total equity.

The Group's computation of debt-to-capital ratio follows:

|  | 2019                    | 2018                    |
|--|-------------------------|-------------------------|
| (a) Gross debt                                   |                         |                         |
| Short-term debt (Note 23)                        | ₱54,047,410,004         | ₱35,453,723,993         |
| Current portion of long-term debt (Note 23)      | 6,819,093,642           | 30,962,269,832          |
| Long-term debt, net of current portion (Note 23) | 212,116,441,065         | 179,286,697,516         |
| Derivative liabilities (Note 8)                  | 432,610,810             | 763,322,060             |
|  | <b>₱273,415,555,521</b> | <b>₱246,466,013,401</b> |
| (b) Capital                                      | <b>₱408,647,142,867</b> | <b>₱367,477,860,539</b> |
| (c) Debt-to-capital ratio (a/b)                  | <b>0.67:1</b>           | <b>0.67:1</b>           |

The Group's policy is to ensure that the debt-to-capital ratio would not exceed the 2.0:1.0 level.

### Regulatory Qualifying Capital

#### *RBC*

In 2013, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. 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 10.0% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross

Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary non-financial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.0% to 125.0% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

Following is a summary of risk weights and selected exposure types:

| Risk weight | Exposure/Asset type*   |
|-------------|--|
| 0%          | Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation   |
| 20%         | COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation |
| 50%         | Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation  |
| 75%         | Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage  |
| 100%        | All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred tax)   |
| 150%        | All NPLs (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities  |

\* Not all inclusive

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.0% to 100.0%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.0%, while items not involving credit risk has a CCF of 0.0%.

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 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 10.0% 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, 2016. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures* which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET1 capital ratio and 10.0% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25.0% on the Group's real estate exposure. These limits shall be complied with at all times.

On June 9, 2016, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum leverage ratio of 5.0% on a solo and consolidated basis and shall be complied with at all times.

The CAR of RBC as reported to the BSP as of December 31, 2019 and 2018 follows:

|                                   | 2019           | 2018    |
|-----------------------------------|----------------|---------|
| CET 1 Capital                     | <b>₱14,500</b> | ₱10,274 |
| Additional Tier 1 Capital         | -              | -       |
| Tier 1 capital                    | <b>14,500</b>  | 10,274  |
| Tier 2 capital                    | <b>803</b>     | 632     |
| Total qualifying capital          | <b>₱15,303</b> | ₱10,906 |
|                                   | <b>2019</b>    | 2018    |
| Credit risk-weighted assets (RWA) | <b>₱80,264</b> | ₱66,962 |
| Market RWA                        | <b>887</b>     | 347     |
| Operational RWA                   | <b>6,477</b>   | 5,399   |
| Total RWA                         | <b>₱87,628</b> | ₱72,708 |
| Common Equity Tier 1 Ratio 1      | <b>16.55%</b>  | 14.13%  |
| Additional Tier 1 Ratio           | <b>0.00%</b>   | 0.00%   |
| Tier 1 capital ratio              | <b>16.55%</b>  | 14.13%  |
| Tier 2 capital ratio              | <b>0.91%</b>   | 0.87%   |
| Risk-based CAR                    | <b>17.46%</b>  | 15.00%  |

As of December 31, 2019 and 2018, RBC was in compliance with the required CAR.

#### Retained Earnings

As of December 31, 2019 and 2018, the Group has a total retained earnings of ₱268.0 billion and ₱239.1 billion, respectively. Out of this, ₱118.3 billion and ₱117.8 billion were restricted as of December 31, 2019 and 2018, respectively.

The details of the Group's restricted retained earnings follow:

#### *Parent Company*

As of December 31, 2019, the ₱101.2 billion restricted retained earnings of the Parent Company are earmarked for the following: (a) settlement of a certain subsidiary's loan obligations guaranteed by the Parent Company (Note 23); (b) settlement of Parent Company loan obligations and retail bonds; (c) capital investment related to digital venture businesses amounting to ₱2.5 billion; (d) capital

investments related to the Clark International Airport expansion project amounting to ₱5.9 billion; (e) investments related to NAIA rehabilitation and expansion project (f) and general corporate purposes.

The details of the loan obligations follow:

|                               | Subsidiary                | Amount            | Settlement                |
|-------------------------------|---------------------------|-------------------|---------------------------|
| <b>Loan obligations:</b>      |                           |                   |                           |
| 4.375% senior unsecured notes | JGSH Philippines, Limited | US\$750.0 million | 10 years maturing in 2023 |
| Term Loans                    | Parent Company            | ₱46.0 billion     | Maturing in 2022 to 2024  |
| Retail Bonds                  | Parent Company            | ₱5.5 billion      | Maturing in 2021 and 2024 |

As part of its debt covenant, the Parent Company has to maintain certain financial ratios such as: (a) the Group's current ratio of not less than 1.0:1.0; and (b) the Group's debt-to-equity ratio of not greater than 2.0:1.0. A portion of the Parent Company's retained earnings is restricted to maintain these financial ratios.

A corresponding amount of appropriated retained earnings will be reversed to unappropriated retained earnings once the foregoing loan obligations are settled.

On December 18, 2019, the BOD approved the appropriation of retained earnings amounting to ₱25.0 billion and the reversal of the appropriation made in prior years amounting to ₱24.5 billion.

#### *URC*

On December 15, 2017, URC's BOD approved the additional appropriation of retained earnings amounting to ₱1.5 billion for capital expenditure commitments to expand capacities in the snack foods and beverage businesses across branded consumer food operations, which are expected to be completed within the next two years.

On December 18, 2018, URC's BOD approved the reversal of the appropriation of retained earnings in the aggregate amount of ₱2.5 billion, which was approved by the BOD in its resolutions adopted on September 27, 2016 and December 15, 2017.

#### *RLC*

On December 14, 2018, RLC's BOD approved the reversal of the retained earnings it appropriated in 2017 amounting to ₱24.5 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, RLC's BOD also approved the appropriation of ₱27.0 billion, out of the unappropriated retained earnings, to support the capital expenditure requirements of the Group for various projects approved by the Executive Committee during meetings held in December 2018. These projects and acquisitions are expected to be completed in various dates in 2019 up to 2023.

On December 9, 2019, RLC's BOD approved the reversal of the retained earnings it appropriated in 2018 amounting to ₱27.0 billion as the related projects to which the retained earnings were earmarked were completed already. The amount was originally earmarked for the continuing capital expenditures of the Group for subdivision land, condominium and residential units for sale, investment properties and property and equipment.

On the same date, RLC's BOD also approved the appropriation of ₱27.0 million, out of the unappropriated retained earnings, to support the capital expenditure requirements of RLC for various projects. These projects and acquisitions are expected to be completed in various dates in 2020 up to 2024.

#### *CAI*

On December 4, 2019, December 12, 2018 and December 15, 2017, CAI's BOD appropriated ₱26.0 billion, ₱22.0 billion and ₱18.3 billion, respectively, from its unrestricted retained earnings for purposes of the Group's re-fleeting program. Appropriations as of December 31, 2018, and 2017 were reversed in the following year. The appropriated amount as of December 31, 2019 will be used for the settlement of aircraft and engine lease commitments in 2020.

As of December 31, 2019 and 2018, CAI has appropriated retained earnings totaling ₱26.0 billion and ₱22.0 billion, respectively.

#### *RBC*

In compliance with existing BSP regulations, 10.0% of the net profits realized by RBC from its trust business is appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.0% of RBC's regulatory capital.

In 2019 and 2018, RBC's BOD approved to appropriate reserves for trust reserves amounting to nil and ₱0.6 million, respectively.

In 2019 and 2018, RBC's BOD approved to appropriate reserves for expected credit losses amounting to ₱498.7 million and ₱98.7 million, respectively, in compliance with the requirements of the BSP Circular No. 1011. Under this BSP Circular, the Bank shall treat Stage 1 provisions for loan accounts as General Provisions (GP) while Stage 2 and 3 provisions shall be treated as Specific Provisions (SP). The Bank shall set up GLLP equivalent to 1% of all outstanding on-balance sheet loan accounts, except for accounts considered as credit risk-free under existing regulations. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1% required GP, the deficiency shall be recognized by appropriating the 'Surplus' account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in surplus shall be considered as Tier 2 capital subject to the limit provided under the CAR framework.

#### *Accumulated equity in net earnings of the subsidiaries and associates*

A portion of the Group's retained earnings corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of the associates and joint ventures amounting to ₱113.8 billion, ₱95.9 billion and ₱86.7 billion as of December 31, 2019, 2018 and 2017, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

#### Cash Dividends

##### *Parent Company*

Details of the Parent Company's dividend declarations on its common stock follow:

|                     | <b>2019</b>          | 2018          | 2017            |
|---------------------|----------------------|---------------|-----------------|
| Date of declaration | <b>May 30, 2019</b>  | May 28, 2018  | June 27, 2017   |
| Dividend per share  | <b>₱0.37</b>         | ₱0.30         | ₱0.28           |
| Total dividends     | <b>₱2.7 billion</b>  | ₱2.2 billion  | ₱2.0 billion    |
| Date of record      | <b>June 20, 2019</b> | June 18, 2018 | July 17, 2017   |
| Date of payment     | <b>July 16, 2019</b> | July 12, 2018 | August 10, 2017 |

Details of the Parent Company's dividend declarations on its preferred stock follow:

|                     | 2019                 | 2018          | 2017            |
|---------------------|----------------------|---------------|-----------------|
| Date of declaration | <b>May 30, 2019</b>  | May 28, 2018  | June 27, 2017   |
| Dividend per share  | <b>₱0.0037</b>       | ₱0.0030       | ₱0.0028         |
| Total dividends     | <b>₱14.8 million</b> | ₱12.0 million | ₱11.2 million   |
| Date of record      | <b>June 20, 2019</b> | June 18, 2018 | July 17, 2017   |
| Date of payment     | <b>July 16, 2019</b> | July 12, 2018 | August 10, 2017 |

The following tables summarize the dividends declared by significant subsidiaries of the Parent Company:

*URC*

Details of URC's dividend declarations follow:

|                              | 2019                     | 2018              | 2017              |
|------------------------------|--------------------------|-------------------|-------------------|
| Date of declaration          | <b>February 28, 2019</b> | February 5, 2018  | February 15, 2017 |
| Dividend per share - regular | <b>₱1.50</b>             | ₱3.15             | ₱3.15             |
| Total dividends - regular    | <b>₱3.3 billion</b>      | ₱6.9 billion      | ₱6.9 billion      |
| Date of record               | <b>March 14, 2019</b>    | February 26, 2018 | March 1, 2017     |
| Date of payment              | <b>March 28, 2019</b>    | March 22, 2018    | March 27, 2017    |
| Dividend per share - special | <b>₱1.65</b>             | -                 | -                 |
| Total dividends - special    | <b>₱3.6 billion</b>      | -                 | -                 |
| Date of record               | <b>July 1, 2019</b>      | -                 | -                 |
| Date of payment              | <b>July 26, 2019</b>     | -                 | -                 |

*RLC*

Details of RLC's dividend declarations follow:

|                     | 2019                 | 2018           | 2017          |
|---------------------|----------------------|----------------|---------------|
| Date of declaration | <b>May 29, 2019</b>  | April 6, 2018  | March 3, 2017 |
| Dividend per share  | <b>₱0.50</b>         | ₱0.36          | ₱0.36         |
| Total dividends     | <b>₱2.6 billion</b>  | ₱1.5 billion   | ₱1.5 billion  |
| Date of record      | <b>June 18, 2019</b> | April 26, 2018 | April 3, 2017 |
| Date of payment     | <b>July 12, 2019</b> | May 23, 2018   | May 2, 2017   |

*CAI*

Details of CAI's dividend declarations follow:

|                              | 2019                    | 2018             | 2017             |
|------------------------------|-------------------------|------------------|------------------|
| Date of declaration          | <b>May 20, 2019</b>     | May 19, 2018     | May 19, 2017     |
| Dividend per share - regular | <b>₱2.00</b>            | ₱2.88            | ₱1.00            |
| Total dividends - regular    | <b>₱1,201.8 million</b> | ₱1,745.1 million | ₱606.0 million   |
| Dividend per share - special | <b>₱5.00</b>            | ₱1.62            | ₱1.75            |
| Total dividends - special    | <b>₱3,004.6 million</b> | ₱981.6 million   | ₱1,060.5 million |
| Date of record               | <b>June 14, 2019</b>    | June 14, 2018    | June 9, 2017     |
| Date of payment              | <b>July 10, 2019</b>    | July 10, 2018    | July 5, 2017     |

Equity Reserve

In July 2019, Intersnack, a European enterprise engaged in the savory snacks market with an extensive product portfolio, agreed to buy 40% of the Group's Oceania business (SBA and Griffin's) to leverage on the Group's and Intersnack's know-how from their respective markets (see Note 44). This transaction is expected to yield better manufacturing, supply chain and sustainability practices and will set the groundwork for an even larger and more efficient Oceania operations. Consideration for the

transaction consisted of cash and Yarra Valley Group Holding Pty Ltd. (Yarra Valley) net assets amounting to US\$142.0 million (₱7.2 billion) and US\$10.1 (₱0.5 billion), respectively.

On December 23, 2019, the Australian FIRB approved the transaction. Following the approval, the transaction was completed on December 23, 2019.

As a result of the sale, the equity interest of URC changed from 100.0% to 60.0%. The excess of the total consideration received over the carrying amount of the equity transferred and call option issued to NCI amounting to ₱1.3 billion is presented under “Equity reserve” in the consolidated statements of financial position. See Note 8 for disclosure on the call option.

On September 27, 2016, URC reissued 22.7 million common shares previously held as treasury shares by way of block sale at a selling price of ₱193.45 per share, with a total selling price amounting to ₱4.4 billion, net of transaction costs amounting to ₱27.2 million. As a result of the sale, the equity interest of the Parent Company over URC changed from 55.83% to 55.25%. The excess of the total consideration received over the carrying value of the interest transferred to the non-controlling interest is included under “Equity Reserve” in the 2016 consolidated statements of financial position.

In December 2014, URC entered into a share purchase agreement with Nissin to sell 14.0% of its equity interest in NURC. As a result of the sale, the equity interest of URC changed from 65% to 51%. The gain from the sale amounting to ₱239.8 million is included under ‘Equity reserve’ in the 2014 consolidated statements of financial position.

#### Non-controlling Interests

Below is the rollforward of non-controlling interests:

|  | 2019                    | 2018            | 2017            |
|--|-------------------------|-----------------|-----------------|
| Beginning balance  | <b>₱91,055,029,938</b>  | ₱77,927,468,808 | ₱73,268,333,356 |
| Total comprehensive income:  |                         |                 |                 |
| Net income attributable to non-controlling interests   | <b>11,380,265,517</b>   | 8,711,457,170   | 10,149,496,652  |
| Other comprehensive income attributable to non-controlling interests:  |                         |                 |                 |
| Net unrealized gains (losses) on financial assets at FVOCI (Note 10)   | <b>454,489,410</b>      | (386,621,935)   | -               |
| Cumulative translation adjustments   | <b>526,535,963</b>      | 722,343,620     | (554,608,529)   |
| Remeasurements due to defined benefit liability (Note 37)  | <b>(208,766,439)</b>    | 112,144,431     | 50,063,791      |
| Gain (loss) on cashflow hedge  | <b>55,830,925</b>       | (1,493,044)     | (5,083,232)     |
| Net unrealized gains (losses) on AFS investments (Note 10)   | -                       | -               | (80,951,614)    |
|  | <b>12,208,355,376</b>   | 9,157,830,242   | 9,558,917,068   |
| Sale of equity interest in a subsidiary  | <b>6,066,755,734</b>    | -               | -               |
| Cash dividends paid to non-controlling interests   | <b>(5,768,961,389)</b>  | (5,068,481,993) | (4,245,057,809) |
| Deposit for future subscription of shares by non-controlling interest in a subsidiary / Issuance of shares by subsidiaries | <b>240,000,000</b>      | 8,987,219,560   | -               |
| Incorporation of a subsidiary  | <b>159,250,000</b>      | -               | -               |
| Property dividends to non-controlling interest   | <b>(20,477,594)</b>     | -               | -               |
| Decrease in subsidiaries' treasury shares  | <b>(104,451,717)</b>    | (231,921,908)   | -               |
| Acquisition of non-controlling interest by a subsidiary  | -                       | 120,000,000     | -               |
| Sale of investment in a subsidiary   | -                       | (125,000)       | -               |
|  | <b>₱103,835,500,348</b> | ₱90,891,989,709 | ₱78,582,192,615 |

In 2018, deposit for future subscription of shares by non-controlling interest in a subsidiary amounting to ₱3.2 billion pertain to the additional investment by RRHI in RBC.

## 26. Revenue

### Disaggregated revenue information

Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15 for the year ended December 31, 2019 and 2018:

|   | December 31, 2019                                 |                                |                                       | Total                   |
|---|---|--------------------------------|---------------------------------------|-------------------------|
|   | Goods and services transferred at a point in time | Services transferred over time | Revenues outside the scope of PFRS 15 |                         |
| Sale of goods and services:                             |   |                                |                                       |                         |
| Foods   | ₱134,057,141,890                                  | ₱-                             | ₱117,385,689                          | ₱134,174,527,579        |
| Air transportation                                      | 84,806,810,363                                    | -                              | -                                     | 84,806,810,363          |
| Petrochemicals  | 29,053,982,086                                    | -                              | -                                     | 29,053,982,086          |
| Real estate and hotels                                  | 6,134,392,237                                     | 9,028,944,073                  | 15,046,850,900                        | 30,210,187,210          |
| Banking   | 462,302,868                                       | -                              | 7,659,360,087                         | 8,121,662,955           |
| Equity in net earnings of associates and joint ventures | -   | -                              | 13,357,511,170                        | 13,357,511,170          |
| Dividend income   | -   | -                              | 1,348,711,916                         | 1,348,711,916           |
| Supplementary businesses                                | 674,872,506                                       | -                              | 74,303,386                            | 749,175,892             |
|   | <b>₱255,189,501,950</b>                           | <b>₱9,028,944,073</b>          | <b>₱37,604,123,148</b>                | <b>₱301,822,569,171</b> |

|   | December 31, 2018                                 |                                |                                       | Total                   |
|---|---|--------------------------------|---------------------------------------|-------------------------|
|   | Goods and services transferred at a point in time | Services transferred over time | Revenues outside the scope of PFRS 15 |                         |
| Sale of goods and services:                             |   |                                |                                       |                         |
| Foods   | ₱127,769,949,329                                  | ₱-                             | ₱-                                    | ₱127,769,949,329        |
| Air transportation                                      | 74,113,776,885                                    | -                              | -                                     | 74,113,776,885          |
| Petrochemicals  | 42,351,966,134                                    | -                              | -                                     | 42,351,966,134          |
| Real estate and hotels                                  | 5,144,042,159                                     | 10,853,067,524                 | 13,470,454,413                        | 29,467,564,096          |
| Banking   | 352,463,888                                       | -                              | 5,779,918,679                         | 6,132,382,567           |
| Equity in net earnings of associates and joint ventures | -   | -                              | 10,181,841,883                        | 10,181,841,883          |
| Dividend income   | -   | -                              | 1,227,572,942                         | 1,227,572,942           |
| Supplementary businesses                                | 596,660,442                                       | -                              | 74,303,386                            | 670,963,828             |
|   | <b>₱250,328,858,837</b>                           | <b>₱10,853,067,524</b>         | <b>₱30,734,091,303</b>                | <b>₱291,916,017,664</b> |

Banking revenue consists of:

|   | 2019                  | 2018                  | 2017                  |
|---|-----------------------|-----------------------|-----------------------|
| Interest income (Note 27)                     | ₱7,198,761,011        | ₱5,761,620,534        | ₱4,109,285,854        |
| Service fees and commission income            | 462,302,868           | 352,463,888           | 181,649,418           |
| Trading and securities gains (Notes 8 and 10) | 460,599,076           | 18,298,145            | 184,893,310           |
|   | <b>₱8,121,662,955</b> | <b>₱6,132,382,567</b> | <b>₱4,475,828,582</b> |

### Contract assets

The Group has current and noncurrent contract assets amounting to ₱3.0 billion and ₱7.8 billion as at December 31, 2019, respectively, and ₱5.1 billion and ₱6.4 billion as at December 31, 2018, respectively.

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer

pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is unconditional. This is reclassified as installment contract receivables when the monthly amortization of the customer is already due for collection. The movement in contract asset is mainly due to new real estate sales contract recognized during the period, increase in percentage of completion, less reclassification of installment contract receivable.

#### Contract liabilities

Contract liabilities consist of collections from real estate customers which have not reached the equity threshold to qualify for revenue recognition and excess of collections over the good and services transferred by Group based on percentage of completion. Current and noncurrent contract liabilities as of December 31, 2019 amounted to ₱14.2 billion and ₱3.0 billion, respectively. Current and noncurrent contract liabilities as of December 31, 2018 amounted to ₱12.9 billion and ₱2.4 billion, respectively. The movement in the contract liability is mainly due to reservation sales and advance payment of buyers less real estate sales recognized upon reaching the equity threshold from increase in percentage of completion.

Revenue recognized from the amounts included in contract liabilities at the beginning of the year amounted to ₱4.0 billion and ₱1.7 billion for the year ended December 31, 2019 and 2018, respectively.

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## 27. Interest Income

This account consists of:

|   | 2019                  | 2018           | 2017           |
|---|-----------------------|----------------|----------------|
| Interest income from:                                       |                       |                |                |
| Finance receivables and sales contract receivable (Note 11) | <b>₱6,062,440,608</b> | ₱4,570,300,338 | ₱3,194,186,361 |
| Cash and cash equivalents (Note 7)                          | <b>1,626,473,064</b>  | 1,145,187,459  | 654,200,215    |
| Financial assets at FVOCI (Note 10)                         | <b>1,027,397,426</b>  | 823,177,155    | -              |
| Financial assets at FVPL (Note 9)                           | <b>100,871,958</b>    | 604,185,880    | 650,771,348    |
| Investment securities at amortized cost (Note 10)           | <b>477,790,098</b>    | 364,317,419    | -              |
| HTM investments (Note 10)                                   | -                     | -              | 23,747,163     |
| AFS debt securities (Note 10)                               | -                     | -              | 829,805,734    |
|   | <b>₱9,294,973,154</b> | ₱7,507,168,251 | ₱5,352,710,821 |

Interest income are included in the following accounts in the consolidated statements of comprehensive income as follows:

|                           | 2019                  | 2018           | 2017           |
|---------------------------|-----------------------|----------------|----------------|
| Banking revenue (Note 26) | <b>₱7,198,761,011</b> | ₱5,761,620,534 | ₱4,109,285,854 |
| Finance income            | <b>2,096,212,143</b>  | 1,745,547,717  | 1,243,424,967  |
|                           | <b>₱9,294,973,154</b> | ₱7,507,168,251 | ₱5,352,710,821 |

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## 28. Dividend Income

As a holding company, the Parent Company receives dividends from its strategic investments in companies that are neither consolidated nor equity-accounted in the group accounts.

This account includes dividends received from PLDT amounting to ₱1.2 billion, ₱1.1 billion and ₱1.3 billion and in 2019, 2018 and 2017, respectively. Investment in PLDT is presented under financial assets at FVOCI.

## 29. Other Operating Income (Expenses)

This account consists of:

|  | 2019                  | 2018           | 2017         |
|--|-----------------------|----------------|--------------|
| Realized gain on sale of financial assets at FVOCI (Note 10) | <b>₱277,810,114</b>   | ₱34,208,528    | ₱–           |
| Gain (loss) on sale of aircraft (Note 16)                    | <b>(225,675,379)</b>  | (46,466,570)   | 102,574,043  |
| Gain on sale of equity investments                           | –                     | 198,141,335    | –            |
| Gain on insurance claims                                     | –                     | 22,985,311     | 28,397,634   |
| Realized gain on sale of AFS investments (Note 10)           | –                     | –              | 14,747,467   |
| Others (Note 21)   | <b>(816,800,275)</b>  | (668,337,030)  | 96,152,440   |
|  | <b>(₱764,665,540)</b> | (₱459,468,426) | ₱241,871,584 |

Others also include restructuring provisions and gain (loss) on sale of PPE and investment properties.

## 30. Cost of Sales and Services

This account consists of:

|                            | 2019                    | 2018             | 2017             |
|----------------------------|-------------------------|------------------|------------------|
| Raw materials used         | <b>₱82,191,336,067</b>  | ₱91,888,688,733  | ₱83,764,786,696  |
| Direct labor               | <b>6,420,796,194</b>    | 6,306,013,840    | 5,861,994,335    |
| Overhead cost              | <b>35,145,343,624</b>   | 32,911,274,997   | 29,252,629,291   |
| Total manufacturing cost   | <b>123,757,475,885</b>  | 131,105,977,570  | 118,879,410,322  |
| Work-in-process            | <b>(500,168,194)</b>    | (228,534,317)    | 74,603,670       |
| Cost of goods manufactured | <b>123,257,307,691</b>  | 130,877,443,253  | 118,954,013,992  |
| Finished goods             | <b>(280,014,204)</b>    | (1,143,328,254)  | 222,298,225      |
| Cost of sales              | <b>122,977,293,487</b>  | 129,734,114,999  | 119,176,312,217  |
| Cost of services           | <b>66,804,207,760</b>   | 63,858,758,345   | 52,378,128,769   |
| Cost of sales and services | <b>₱189,781,501,247</b> | ₱193,592,873,344 | ₱171,554,440,986 |

Overhead costs consist of:

|   | 2019                   | 2018            | 2017            |
|---|------------------------|-----------------|-----------------|
| Utilities and fuel                      | <b>₱14,339,747,118</b> | ₱13,733,217,586 | ₱13,216,743,403 |
| Depreciation and amortization (Note 33) | <b>8,123,002,887</b>   | 7,369,712,417   | 6,818,023,778   |
| Personnel (Note 32)                     | <b>3,956,487,889</b>   | 3,664,721,272   | 3,492,390,785   |
| Repairs and maintenance                 | <b>3,901,050,472</b>   | 3,562,033,341   | 3,162,811,896   |
| Security and other contracted services  | <b>824,215,485</b>     | 765,581,653     | 681,266,926     |
| Insurance                               | <b>370,434,877</b>     | 324,898,144     | 316,072,656     |
| Taxes, licenses and fees                | <b>1,686,350,926</b>   | 2,329,379,936   | 249,708,624     |
| Handling and delivery charges           | <b>245,906,851</b>     | 183,736,214     | 185,825,028     |
| Rental                                  | <b>239,047,138</b>     | 462,677,724     | 414,997,425     |
| Research and development                | <b>87,191,359</b>      | 87,264,821      | 82,777,295      |
| Others                                  | <b>1,371,908,622</b>   | 428,051,889     | 632,011,475     |
|   | <b>₱35,145,343,624</b> | ₱32,911,274,997 | ₱29,252,629,291 |

Cost of services is composed of:

|                    | 2019                   | 2018            | 2017            |
|--------------------|------------------------|-----------------|-----------------|
| Air transportation | <b>₱49,518,018,515</b> | ₱48,039,492,056 | ₱40,626,822,232 |
| Real estate        | <b>12,023,363,232</b>  | 11,987,104,415  | 9,217,080,148   |
| Banking            | <b>3,173,237,752</b>   | 2,275,281,099   | 1,183,714,020   |
| Hotel operations   | <b>2,089,588,261</b>   | 1,556,880,775   | 1,350,512,369   |
|                    | <b>₱66,804,207,760</b> | ₱63,858,758,345 | ₱52,378,128,769 |

Further breakdown of the 'Cost of services' account showing the nature of expenses follow:

|  | 2019                   | 2018            | 2017            |
|--|------------------------|-----------------|-----------------|
| Fuel and oil                                 | <b>₱24,591,651,508</b> | ₱25,431,126,363 | ₱19,594,980,725 |
| Maintenance costs                            | <b>7,144,174,829</b>   | 7,341,707,601   | 6,836,779,366   |
| Personnel (Note 32)                          | <b>6,882,489,474</b>   | 5,543,013,641   | 5,270,242,234   |
| Depreciation and amortization (Note 33)      | <b>4,966,545,415</b>   | 4,456,732,645   | 3,914,114,101   |
| Cost of real estate sales (Note 12)          | <b>4,235,325,163</b>   | 4,931,427,825   | 3,143,037,387   |
| Ground handling charges                      | <b>4,154,701,288</b>   | 3,421,655,961   | 2,682,026,202   |
| Landing and take-off                         | <b>3,818,785,918</b>   | 3,478,873,175   | 3,487,271,164   |
| Interest expense (Note 21)                   | <b>2,939,576,169</b>   | 2,187,499,371   | 1,126,827,599   |
| Reservation costs                            | <b>2,034,317,306</b>   | 2,038,933,190   | 1,811,955,992   |
| Property operations and maintenance costs    | <b>1,134,695,919</b>   | 1,216,896,943   | 1,097,218,241   |
| Film rentals expense - amusement services    | <b>956,468,868</b>     | 906,006,116     | 820,824,802     |
| Contracted services                          | <b>710,939,896</b>     | 538,355,927     | 307,231,516     |
| Cost of food and beverage - hotel operations | <b>380,535,302</b>     | 320,069,980     | 353,667,814     |
| Travel and transportation                    | <b>274,231,103</b>     | 190,332,038     | 190,585,490     |
| Interrupted/delayed trips expense            | <b>268,974,040</b>     | 163,373,839     | 287,708,265     |
| Passenger food and supplies                  | <b>259,298,060</b>     | 237,379,634     | 152,382,065     |
| Passenger liability insurance                | <b>258,740,461</b>     | 222,425,888     | 209,138,455     |
| Service charges and commission expense       | <b>233,661,583</b>     | 87,781,728      | 56,886,421      |
| Pilot and crew meals                         | <b>87,997,971</b>      | 75,225,150      | 61,731,718      |
| Customs, immigration and duties              | <b>3,086,774</b>       | 18,629,660      | 34,877,755      |
| Others                                       | <b>1,468,010,713</b>   | 1,051,311,670   | 938,641,457     |
|  | <b>₱66,804,207,760</b> | ₱63,858,758,345 | ₱52,378,128,769 |

### 31. General and Administrative Expenses

This account consists of:

|   | 2019                   | 2018           | 2017           |
|---|------------------------|----------------|----------------|
| Depreciation and amortization (Note 33) | <b>₱16,923,447,804</b> | ₱8,740,834,947 | ₱8,204,601,381 |
| Outside services                        | <b>11,842,904,635</b>  | 10,860,963,011 | 10,537,048,072 |
| Advertising and promotions              | <b>9,725,415,021</b>   | 8,680,706,701  | 9,173,757,140  |
| Personnel (Note 32)                     | <b>9,575,892,135</b>   | 8,742,446,729  | 8,091,935,699  |
| Taxes, licenses and fees                | <b>1,877,642,128</b>   | 1,804,907,486  | 1,398,172,998  |
| Rental (Note 42)                        | <b>1,185,941,162</b>   | 1,899,162,610  | 2,066,485,679  |
| Travel and transportation               | <b>1,034,390,522</b>   | 1,166,014,683  | 1,316,855,993  |
| Sales commission                        | <b>1,019,791,106</b>   | 996,168,674    | 731,736,670    |
| Repairs and maintenance                 | <b>921,210,132</b>     | 944,420,851    | 534,931,956    |
| Utilities and supplies                  | <b>696,008,051</b>     | 711,316,430    | 735,173,495    |

(Forward)

|  | 2019                   | 2018            | 2017            |
|--|------------------------|-----------------|-----------------|
| Insurance  | <b>₱683,959,468</b>    | ₱576,395,623    | ₱635,478,465    |
| Communication  | <b>408,001,326</b>     | 383,953,070     | 348,095,166     |
| Aircraft and engine lease                            | <b>313,939,968</b>     | 5,650,909,510   | 4,635,003,450   |
| Entertainment, amusement and recreation<br>(Note 38) | <b>206,723,604</b>     | 195,801,882     | 184,657,022     |
| Others   | <b>1,567,833,799</b>   | 1,558,528,572   | 1,316,114,551   |
|  | <b>₱57,983,100,861</b> | ₱52,912,530,779 | ₱49,910,047,737 |

Others

Other expenses include royalties, donation and contribution, and membership and subscription dues.

### 32. Personnel Expenses

This account consists of:

|                         | 2019                   | 2018            | 2017            |
|-------------------------|------------------------|-----------------|-----------------|
| Salaries and wages      | <b>₱16,342,665,279</b> | ₱14,457,015,945 | ₱13,558,842,741 |
| Other employee benefits | <b>3,069,665,955</b>   | 2,992,238,378   | 2,872,204,576   |
| Pension expense         | <b>1,002,538,264</b>   | 500,927,319     | 423,521,401     |
|                         | <b>₱20,414,869,498</b> | ₱17,950,181,642 | ₱16,854,568,718 |

The breakdown of personnel expenses follows:

|   | 2019                   | 2018            | 2017            |
|---|------------------------|-----------------|-----------------|
| Cost of sales and services (Note 30)          | <b>₱10,838,977,363</b> | ₱9,207,734,913  | ₱8,762,633,019  |
| General and administrative expenses (Note 31) | <b>9,575,892,135</b>   | 8,742,446,729   | 8,091,935,699   |
|   | <b>₱20,414,869,498</b> | ₱17,950,181,642 | ₱16,854,568,718 |

### 33. Depreciation and Amortization

The breakdown of depreciation and amortization on property, plant and equipment, investment properties, biological assets, intangible assets and ROU assets follows:

|   | 2019                   | 2018            | 2017            |
|---|------------------------|-----------------|-----------------|
| Cost of sales and services<br>(Notes 15, 16 and 30)               | <b>₱13,089,548,302</b> | ₱11,826,445,062 | ₱10,732,137,879 |
| General and administrative expenses<br>(Notes 15, 16, 18, and 31) | <b>16,923,447,804</b>  | 8,740,834,952   | 8,204,601,381   |
|   | <b>₱30,012,996,106</b> | ₱20,567,280,014 | ₱18,936,739,260 |

### 34. Provision for (Reversal of) Impairment Losses and Others

This account consists of:

|  | 2019                    | 2018                | 2017                |
|--|-------------------------|---------------------|---------------------|
| Provision for (reversal of) impairment losses on:      |                         |                     |                     |
| Property, plant and equipment (Note 16)                | (P2,274,795,253)        | P1,699,792          | P4,714,024          |
| Receivables (Note 11)                                  | 133,647,748             | 117,349,689         | 231,167,858         |
| Investment properties (Note 15)                        | (3,823,625)             | -                   | 1,885,207           |
| Inventory obsolescence and market decline<br>(Note 12) | 2,678                   | 7,948,049           | 2,870,047           |
| Goodwill   | -                       | 17,579,587          | -                   |
| Other noncurrent assets                                | -                       | 1,224,464           | 7,443,236           |
|  | <b>(P2,144,968,452)</b> | <b>P145,801,581</b> | <b>P248,080,372</b> |

### 35. Financing Costs and Other Charges

This account consists of:

|                         | 2019                   | 2018                  | 2017                  |
|-------------------------|------------------------|-----------------------|-----------------------|
| Interest expense        | P10,735,461,364        | P9,377,151,320        | P7,635,388,645        |
| Bank charges and others | 230,385,537            | 258,223,453           | 200,749,289           |
|                         | <b>P10,965,846,901</b> | <b>P9,635,374,773</b> | <b>P7,836,137,934</b> |

Sources of financing costs and other charges follow:

|   | 2019                   | 2018                  | 2017                  |
|---|------------------------|-----------------------|-----------------------|
| Long-term debt (Note 23)                      | P8,459,424,425         | P8,027,885,938        | P6,642,940,617        |
| Short-term debt (Note 23)                     | 1,371,340,594          | 1,053,574,999         | 780,408,518           |
| Others  | 339,266,940            | 448,717,516           | 328,574,778           |
|   | <b>10,170,031,959</b>  | <b>9,530,178,453</b>  | <b>7,751,923,913</b>  |
| Accretion of lease liabilities (Note 42)      | 715,156,294            | -                     | -                     |
| Amortization of debt issuance costs (Note 23) | 80,658,648             | 105,196,320           | 84,214,021            |
|   | <b>P10,965,846,901</b> | <b>P9,635,374,773</b> | <b>P7,836,137,934</b> |

### 36. Components of Other Comprehensive Income

Below is the composition of the Group's 'Other comprehensive income':

|   | 2019             |                           |                  |
|---|------------------|---------------------------|------------------|
|   | Parent Company   | Non-controlling Interests | Total            |
| Net gain (loss) on FVOCI investments:   |                  |                           |                  |
| Net changes in fair value of FVOCI of Parent and its subsidiaries                     |                  |                           |                  |
| Net changes in fair value during the period   | (P1,083,397,384) | P454,489,410              | (P628,907,974)   |
| Reclassification adjustment included in profit or loss arising from disposal of FVOCI | (277,810,114)    | –                         | (277,810,114)    |
|   | (1,361,207,498)  | 454,489,410               | (906,718,088)    |
| Net changes in fair value of FVOCI of an associate                                    | 176,256,150      | –                         | 176,256,150      |
|   | (1,184,951,348)  | 454,489,410               | (730,461,938)    |
| Net changes in fair value of cash flow hedge (Note 8):                                |                  |                           |                  |
| Net changes in fair value of derivatives taken to OCI                                 | 119,340,853      | 55,830,925                | 175,171,778      |
|   | (1,065,610,495)  | 510,320,335               | (555,290,160)    |
| Cumulative translation adjustments  | 673,475,522      | 526,535,963               | 1,200,011,485    |
| Remeasurements due to defined benefit liability (DBL), net of tax (Note 37)           |                  |                           |                  |
| Remeasurements of net DBL of Parent and subsidiaries                                  | (379,798,762)    | (208,766,439)             | (588,565,201)    |
| Share in remeasurements of net DBL of associates                                      | (1,170,380,505)  | –                         | (1,170,380,505)  |
|   | (P1,942,314,240) | P828,089,859              | (P1,114,224,381) |
|   |                  |                           |                  |
|   | 2018             |                           |                  |
|   | Parent Company   | Non-controlling Interests | Total            |
| Net gain (loss) on FVOCI investments:   |                  |                           |                  |
| Net changes in fair value of FVOCI of Parent and its subsidiaries                     |                  |                           |                  |
| Net changes in fair value during the period   | (P7,517,643,934) | (P386,621,935)            | (P7,904,265,869) |
| Reclassification adjustment included in profit or loss arising from disposal of FVOCI | (34,208,528)     | –                         | (34,208,528)     |
|   | (7,551,852,462)  | (386,621,935)             | (7,938,474,397)  |
| Net changes in fair value of FVOCI of an associate                                    | (141,404,566)    | –                         | (141,404,566)    |
|   | (7,693,257,028)  | (386,621,935)             | (8,079,878,963)  |
| Net changes in fair value of cash flow hedge (Note 8):                                |                  |                           |                  |
| Net changes in fair value of derivatives taken to OCI                                 | (1,843,509)      | (1,493,044)               | (3,336,553)      |
|   | (7,695,100,537)  | (388,114,979)             | (8,083,215,516)  |
| Cumulative translation adjustments  | 764,122,128      | 722,343,620               | 1,486,465,748    |
| Remeasurements due to defined benefit liability, net of tax (Note 37)                 |                  |                           |                  |
| Remeasurements of net DBL of Parent and Subsidiaries                                  | 200,833,281      | 112,144,431               | 312,977,712      |
| Share in remeasurements of net DBL of associates                                      | 387,758,074      | –                         | 387,758,074      |
|   | (P6,342,387,054) | P446,373,072              | (P5,896,013,982) |

|   | 2017           |                           |                 |
|---|----------------|---------------------------|-----------------|
|   | Parent Company | Non-controlling Interests | Total           |
| Net gains on AFS investments (Note 10):   |                |                           |                 |
| Net changes in fair value of AFS investments of the Parent Company and its subsidiaries:        |                |                           |                 |
| Net changes in fair value during the period   | ₱1,855,132,262 | (₱80,951,614)             | ₱1,774,180,648  |
| Reclassification adjustment included in profit or loss arising from disposal of AFS investments | (14,747,467)   | –                         | (14,747,467)    |
|   | 1,840,384,795  | (80,951,614)              | 1,759,433,181   |
| Share in net changes in fair value of AFS investments of an associate                           | 24,394,385     | –                         | 24,394,385      |
|   | 1,864,779,180  | (80,951,614)              | 1,783,827,566   |
| Net changes in fair value of cash flow hedge (Note 8):  |                |                           |                 |
| Net changes in fair value of derivatives taken to OCI   | (6,276,428)    | (5,083,232)               | (11,359,660)    |
|   | 1,858,502,752  | (86,034,846)              | 1,772,467,906   |
| Cumulative translation adjustments  | (629,187,834)  | (554,608,529)             | (1,183,796,363) |
| Remeasurements due to defined benefit liability, net of tax (Note 37)                           |                |                           |                 |
| Remeasurements of net DBL of Parent and subsidiaries  | 66,750,379     | 50,063,791                | 116,814,170     |
| Share in remeasurements of net DBL of associates  | (326,973,548)  | –                         | (326,973,548)   |
|   | ₱969,091,749   | (₱590,579,584)            | ₱378,512,165    |

The income tax effects relating to other comprehensive income are as follows:

|  | 2019             |              |                  |
|--|------------------|--------------|------------------|
|  | Before tax       | Tax benefit  | Net of tax       |
| Net gains on financial assets at FVOCI of Parent Company and its subsidiaries    | (₱906,718,088)   | ₱–           | (₱906,718,088)   |
| Cumulative translation adjustments   | 1,200,011,485    | –            | 1,200,011,485    |
| Net movement in cash flow hedge  | 252,216,877      | (77,045,099) | 175,171,778      |
| Remeasurements due to defined benefit liability                                  | (840,807,430)    | 252,242,229  | (588,565,201)    |
| Remeasurements due to defined benefit liability of associates                    | (1,170,380,505)  | –            | (1,170,380,505)  |
| Net changes in fair value of financial assets at FVOCI of an associate (Note 10) | 176,256,150      | –            | 176,256,150      |
|  | (₱1,289,421,511) | ₱175,197,130 | (₱1,114,224,381) |

|  | 2018             |                |                  |
|--|------------------|----------------|------------------|
|  | Before tax       | Tax benefit    | Net of tax       |
| Net gains on financial assets at FVOCI of Parent Company and its subsidiaries    | (₱7,938,474,397) | ₱–             | (₱7,938,474,397) |
| Cumulative translation adjustments   | 1,486,465,748    | –              | 1,486,465,748    |
| Net movement in cash flow hedge  | (3,336,553)      | –              | (3,336,553)      |
| Remeasurements due to defined benefit liability                                  | 447,111,017      | (134,133,305)  | 312,977,712      |
| Remeasurements due to defined benefit liability of associates                    | 387,758,074      | –              | 387,758,074      |
| Net changes in fair value of financial assets at FVOCI of an associate (Note 10) | (141,404,566)    | –              | (141,404,566)    |
|  | (₱5,761,880,677) | (₱134,133,305) | (₱5,896,013,982) |

|  | 2017                |                      |                     |
|--|---------------------|----------------------|---------------------|
|  | Before tax          | Tax benefit          | Net of tax          |
| Net gains on AFS investments of Parent Company and its subsidiaries    | ₱1,759,433,181      | ₱—                   | ₱1,759,433,181      |
| Cumulative translation adjustments                                     | (1,183,796,363)     | —                    | (1,183,796,363)     |
| Net movement in cash flow hedge  | (11,359,660)        | —                    | (11,359,660)        |
| Remeasurements due to defined benefit liability                        | (160,096,162)       | (50,063,216)         | (210,159,378)       |
| Net changes in fair value of AFS investments of an associate (Note 10) | 24,394,385          | —                    | 24,394,385          |
|  | <b>₱428,575,381</b> | <b>(₱50,063,216)</b> | <b>₱378,512,165</b> |

### 37. Employee Benefits

#### Pension Plans

The Group has funded, noncontributory, defined benefit pension plans covering substantially all of their regular employees, except for JGSPC that has an unfunded, noncontributory defined benefit pension plan.

The pension funds are being administered and managed through JG Summit Multi-Employer Retirement Plan (the “Plan”), with RBC as Trustee. The plans provide for retirement, separation, disability and death benefits to their members. The Group, however, reserves the right to discontinue, suspend or change the rates and amounts of their contributions at any time on account of business necessity or adverse economic conditions. The retirement plan has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the Plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

The amounts recognized as pension liabilities included under ‘Other noncurrent liabilities’ in the consolidated statements of financial position follow:

|   | 2019                  | 2018           |
|---|-----------------------|----------------|
| Present value of defined benefit obligation | <b>₱5,764,503,153</b> | ₱4,078,579,993 |
| Fair value of plan assets                   | <b>3,070,592,549</b>  | 2,862,760,085  |
| Pension liabilities (Note 24)               | <b>₱2,693,910,604</b> | ₱1,215,819,908 |

Changes in net defined benefit liability of funded funds in 2019 and 2018 follows:

|   | 2019  |                           |                                       |
|---|---|---------------------------|---------------------------------------|
|   | Present value of defined benefit obligation | Fair value of plan assets | Net defined benefit liability/(asset) |
| Balance at beginning of year                          | <b>₱4,078,579,993</b>                       | <b>₱2,862,760,085</b>     | <b>₱1,215,819,908</b>                 |
| Net benefit cost in consolidated statement of income: |   |                           |                                       |
| Current service cost                                  | 467,118,530                                 | —                         | 467,118,530                           |
| Past service cost                                     | 442,007,229                                 | —                         | 442,007,229                           |
| Net interest cost                                     | 263,017,283                                 | 227,919,026               | 35,098,257                            |
| Subtotal  | <b>1,172,143,042</b>                        | <b>227,919,026</b>        | <b>944,224,016</b>                    |
| Benefits paid   | <b>(416,640,546)</b>                        | <b>(201,554,994)</b>      | <b>(215,085,552)</b>                  |
| Effect of curtailment                                 | (79,901,033)                                | —                         | (79,901,033)                          |
| Settlement  | 171,303,188                                 | —                         | 171,303,188                           |
| Net liabilities acquired                              | 834,866                                     | —                         | 834,866                               |

(Forward)

|   | 2019  |                              |  |
|---|---|------------------------------|--|
|   | Present value of<br>defined benefit<br>obligation | Fair value of<br>plan assets | Net defined benefit<br>liability/(asset) |
| Remeasurements in other comprehensive income:                               |   |                              |  |
| Return on plan assets   | ₱–  | (₱2,293,138)                 | ₱2,293,138                               |
| Actuarial changes arising from experience adjustments                       | (190,860,255)                                     | –                            | (190,860,255)                            |
| Actuarial changes arising from changes in financial assumptions             | 953,122,070                                       | –                            | 953,122,070                              |
| Actuarial changes arising from changes in financial/demographic assumptions | 75,921,828  | (330,649)                    | 76,252,477                               |
| Subtotal  | 838,183,643                                       | (2,623,787)                  | 840,807,430                              |
| Contributions paid  | –   | 184,092,219                  | (184,092,219)                            |
| Balance at end of year  | <b>₱5,764,503,153</b>                             | <b>₱3,070,592,549</b>        | <b>₱2,693,910,604</b>                    |

|   | 2018  |                              |  |
|---|---|------------------------------|--|
|   | Present value of<br>defined benefit<br>obligation | Fair value of<br>plan assets | Net defined benefit<br>liability/(asset) |
| Balance at beginning of year  | ₱4,205,872,266                                    | ₱2,774,706,462               | ₱1,431,165,804                           |
| Net benefit cost in consolidated statement of income:                       |   |                              |  |
| Current service cost  | 430,507,184                                       | –                            | 430,507,184                              |
| Net interest cost   | 233,310,252                                       | 147,460,639                  | 85,849,613                               |
| Subtotal  | 663,817,436                                       | 147,460,639                  | 516,356,797                              |
| Benefits paid   | (397,417,209)                                     | (178,209,427)                | (219,207,782)                            |
| Assets and liabilities acquired   | 3,841,811   | 1,521,558                    | 2,320,253                                |
| Remeasurements in other comprehensive income:                               |   |                              |  |
| Return on plan assets   | –   | (60,262,050)                 | 60,262,050                               |
| Actuarial changes arising from experience adjustments                       | 43,865,158  | –                            | 43,865,158                               |
| Actuarial changes arising from changes in financial/demographic assumptions | (551,238,225)                                     | –                            | (551,238,225)                            |
| Subtotal  | (507,373,067)                                     | (60,262,050)                 | (447,111,017)                            |
| Contributions paid  | 109,838,756                                       | 177,542,903                  | (67,704,147)                             |
| Balance at end of year  | <b>₱4,078,579,993</b>                             | <b>₱2,862,760,085</b>        | <b>₱1,215,819,908</b>                    |

The fair value of plan assets by each class as at the end of the reporting period are as follow:

|                             | 2019                  | 2018           |
|-----------------------------|-----------------------|----------------|
| <b>ASSETS</b>               |                       |                |
| Cash and cash equivalents   | <b>₱500,081,016</b>   | ₱539,604,346   |
| UITF investments            | <b>1,440,269,798</b>  | –              |
| Debt instruments            | <b>620,671,960</b>    | 872,211,151    |
| Financial assets at FVOCI   | <b>91,272,424</b>     | 936,633,095    |
| Equity investments          | <b>4,123,496</b>      | 130,728,481    |
| Receivable                  | <b>308,086,366</b>    | 245,157,342    |
| Accrued interest receivable | <b>5,264,063</b>      | 18,879,657     |
| Prepayments                 | <b>840</b>            | 14,286,023     |
| Land                        | <b>143,201,000</b>    | 143,201,000    |
|                             | <b>3,112,970,963</b>  | 2,900,701,095  |
| <b>LIABILITIES</b>          |                       |                |
| Current liabilities         | <b>93,174</b>         | 36,050,908     |
|                             | <b>3,112,877,789</b>  | 2,864,650,187  |
| Expected withdrawals        | <b>(42,285,240)</b>   | (1,890,102)    |
|                             | <b>₱3,070,592,549</b> | ₱2,862,760,085 |

The overall expected rates of return on assets are based on the market expectations prevailing as at the reporting date, applicable to the period over which the obligation is settled.

The average duration of the defined benefit obligation of the Group as of December 31, 2019 is 18.97 years.

The Group expects to contribute ₱508.9 million into the pension fund in 2020.

The assumptions used to determine the pension benefits of the Group follow:

| 2019           |                   |  |                         |                  |
|----------------|-------------------|--|-------------------------|------------------|
|                | Retirement<br>Age | Average<br>Remaining<br>Working Life<br>(in years) | Salary Rate<br>Increase | Discount<br>Rate |
| Parent Company | 60                | 15.25  | 5.7%                    | 7.28%            |
| URC            | 60                | 18.00  | 5.7%                    | 4.88 to 4.90%    |
| RLC            | 60                | 17.00  | 5.7%                    | 4.52% to 5.16%   |
| CAI            | 60                | 19.92  | 5.7%                    | 4.98% to 5.02%   |
| RBC            | 60                | 19.49  | 5.7%                    | 4.95%            |
| JGSPC          | 60                | 20.95  | 5.7%                    | 4.98%            |
| JGSOC          | 60                | 20.83  | 5.7%                    | 5.00%            |
| Unicon         | 60                | 18.10  | 5.7%                    | 4.93%            |
| Aspen          | 60                | 17.79  | 5.7%                    | 4.99%            |
| LSB            | 60                | 21.31  | 5.7%                    | 4.99%            |

| 2018           |                   |  |                         |                  |
|----------------|-------------------|--|-------------------------|------------------|
|                | Retirement<br>Age | Average<br>Remaining<br>Working Life<br>(in years) | Salary Rate<br>Increase | Discount<br>Rate |
| Parent Company | 60                | 16.9   | 5.7%                    | 7.28%            |
| URC            | 60                | 19.0   | 5.7%                    | 7.31 to 7.40%    |
| RLC            | 60                | 17.0   | 5.7%                    | 7.22 to 7.47%    |
| CAI            | 60                | 19.0   | 5.7%                    | 7.35 to 7.36%    |
| RBC            | 60                | 16.8   | 5.7%                    | 7.30%            |
| JGSPC          | 60                | 20.2   | 5.7%                    | 7.36%            |
| JGSOC          | 60                | 21.6   | 5.7%                    | 7.39%            |
| Unicon         | 60                | 18.9   | 5.7%                    | 7.34%            |
| Aspen          | 60                | 17.7   | 5.7%                    | 7.31%            |
| LSB            | 60                | 21.1   | 5.7%                    | 7.36%            |

| 2017           |                   |  |                         |                  |
|----------------|-------------------|--|-------------------------|------------------|
|                | Retirement<br>Age | Average<br>Remaining<br>Working Life<br>(in years) | Salary Rate<br>Increase | Discount<br>Rate |
| Parent Company | 60                | 13   | 5.7%                    | 5.77%            |
| URC            | 60                | 8 to 11  | 5.7%                    | 5.23 to 5.76%    |
| RLC            | 60                | 8 to 13  | 5.5%                    | 5.63 to 5.80%    |
| CAI            | 60                | 7 to 9   | 5.5 to 5.7%             | 5.73 to 5.76%    |
| RBC            | 60                | 6  | 5.7%                    | 5.74%            |
| JGSPC          | 60                | 10   | 5.7%                    | 5.75%            |
| JGSOC          | 60                | 10   | 5.7%                    | 5.75%            |
| Unicon         | 60                | 10   | 5.7%                    | 5.72%            |
| LSB            | 60                | 8  | 5.7%                    | 5.79%            |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the retirement benefit obligation as of December 31, 2019 and 2018, assuming if all other assumptions were held constant:

| 2019                           |                |                |                |                  |                |               |                |               |               |              |
|--------------------------------|----------------|----------------|----------------|------------------|----------------|---------------|----------------|---------------|---------------|--------------|
|                                | Parent Company | URC            | RLC            | CAI              | RBC            | LSB           | JGSPC          | JGSOC         | ASPEN         | Unicon       |
| <b>Discount rates</b>          |                |                |                |                  |                |               |                |               |               |              |
| +1.00%                         | (P64,179,866)  | (P239,979,798) | (P35,560,743)  | (P1,493,570,281) | (P245,447,174) | (P15,840,856) | (P215,508,781) | (P18,266,703) | (P84,109,507) | (P4,665,687) |
| (-1.00%)                       | 76,455,409     | 279,172,182    | 52,024,195     | 1,841,915,831    | 300,031,373    | 20,183,182    | 268,260,629    | 23,016,763    | 98,299,056    | 5,841,143    |
| <b>Future salary increases</b> |                |                |                |                  |                |               |                |               |               |              |
| +1.00%                         | 76,711,012     | 287,812,657    | 53,425,615     | 1,846,465,269    | 258,314,346    | 20,231,355    | 268,976,340    | 23,068,843    | 98,959,099    | 5,848,750    |
| (-1.00%)                       | (63,853,898)   | (251,957,048)  | (37,518,849)   | (1,486,751,636)  | (284,690,140)  | (15,764,573)  | (214,467,326)  | (18,184,308)  | (83,421,175)  | (4,648,870)  |
| 2018                           |                |                |                |                  |                |               |                |               |               |              |
|                                | Parent Company | URC            | RLC            | CAI              | RBC            | LSB           | JGSPC          | JGSOC         | ASPEN         | Unicon       |
| <b>Discount rates</b>          |                |                |                |                  |                |               |                |               |               |              |
| +1.00%                         | (P36,928,834)  | (P145,795,088) | (P429,489,169) | (P981,606,186)   | (P154,331,259) | (P6,065,487)  | (P149,596,064) | (P10,343,182) | (P84,109,507) | (P2,922,378) |
| (-1.00%)                       | 43,900,563     | 167,001,465    | 495,647,840    | 1,157,746,082    | 178,837,861    | 7,455,683     | 177,352,990    | 12,634,421    | 98,299,056    | 3,522,982    |
| <b>Future salary increases</b> |                |                |                |                  |                |               |                |               |               |              |
| +1.00%                         | 44,199,142     | 181,429,918    | 498,939,922    | 1,165,857,113    | 180,030,852    | 7,508,279     | 178,621,440    | 12,724,639    | 98,959,099    | 3,547,296    |
| (-1.00%)                       | (36,617,647)   | (160,815,063)  | (426,064,803)  | (973,270,554)    | (153,097,334)  | (6,011,542)   | (148,304,822)  | (10,250,795)  | (83,421,175)  | (2,896,639)  |

Shown below is the maturity analysis of the undiscounted benefit payments of the Group:

|                                | 2019                  | 2018           |
|--------------------------------|-----------------------|----------------|
| Less than 1 year               | <b>P405,181,601</b>   | P376,611,172   |
| More than 1 years to 5 years   | <b>1,945,532,928</b>  | 1,739,542,960  |
| More than 5 years to 10 years  | <b>3,422,549,970</b>  | 2,989,942,882  |
| More than 10 years to 15 years | <b>4,699,771,058</b>  | 3,804,904,171  |
| More than 15 years to 20 years | <b>4,892,836,370</b>  | 3,811,710,836  |
| More than 20 years             | <b>14,677,465,121</b> | 10,707,386,458 |

### 38. Income Taxes

Provision for income tax consists of:

|           | 2019                  | 2018           | 2017           |
|-----------|-----------------------|----------------|----------------|
| Corporate | <b>P5,091,687,014</b> | P5,042,144,252 | P4,751,400,034 |
| Final     | <b>249,294,831</b>    | 207,933,998    | 161,281,024    |
| Deferred  | <b>31,332,665</b>     | (106,284,544)  | 588,787,833    |
|           | <b>P5,372,314,510</b> | P5,143,793,706 | P5,501,468,891 |

The Group recognized benefit (provision) for income tax in 'Other comprehensive income' for 'Other comprehensive income items' amounting to P175.2 million, (P134.1 million) and (P50.1 million) in 2019, 2018 and 2017, respectively (see Note 36).

#### Republic Act (RA) No. 9337

Current tax regulations provide that the RCIT rate shall be 30.0% and interest expense allowed as a deductible expense is reduced by 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of a 2.0% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT.

Entertainment, Amusement and Recreation (EAR) Expenses

Current tax regulations define expenses to be classified as EAR expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1.0% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. The Group recognized EAR expenses (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounting to ₱206.7 million, ₱195.8 million and ₱184.7 million in 2019, 2018 and 2017, respectively (see Note 31).

Compositions of the Group's net deferred tax assets (included in the 'Other noncurrent assets' in the consolidated statements of financial position) follow (see Note 20):

|  | 2019                   | 2018            |
|--|------------------------|-----------------|
| Deferred tax assets on:  |                        |                 |
| Asset retirement obligation  | <b>₱1,782,720,435</b>  | ₱1,734,415,939  |
| Allowance for impairment losses on receivables and property and equipment                  | <b>648,645,951</b>     | 513,863,906     |
| Net operating loss carry-over  | <b>647,926,081</b>     | 243,394,030     |
| Unfunded pension liabilities   | <b>568,880,691</b>     | 264,029,879     |
| Unrealized forex loss  | <b>393,282,170</b>     | 880,873,115     |
| Foreign subsidiaries   | <b>95,810,488</b>      | 100,068,558     |
| Lease liabilities  | <b>65,033,872</b>      | -               |
| Unrealized loss on net derivative liability  | <b>37,893,750</b>      | 228,895,609     |
| MCIT carryforward  | <b>30,936,462</b>      | 26,392,884      |
| Loss arising from changes in fair value less estimated point-of-sale costs of swine stocks | <b>10,081,568</b>      | -               |
| Others   | <b>491,187,356</b>     | 400,152,343     |
| <b>Total</b>   | <b>4,772,398,824</b>   | 4,392,086,263   |
| Deferred tax liabilities on:   |                        |                 |
| Double depreciation  | <b>(1,789,818,540)</b> | (1,864,944,473) |
| Branch licenses  | <b>(186,000,000)</b>   | (186,000,000)   |
| Excess of fair value of assets acquired over cost  | <b>(185,645,561)</b>   | (185,645,561)   |
| Unrealized profit on excess of market value over cost of hog markets                       | -                      | (10,973,879)    |
| Others   | <b>(148,408,877)</b>   | (179,462,095)   |
|  | <b>(2,309,872,978)</b> | (2,427,026,008) |
| <b>Net deferred tax asset</b>  | <b>₱2,462,525,846</b>  | ₱1,965,060,255  |

As of December 31, 2019, deferred tax asset under 'others' include deferred revenue and allowance for inventory write-downs amounting to ₱370.5 million and ₱33.5 million, respectively. As of December 31, 2018, deferred tax asset under 'others' include deferred revenue and accrued rent amounting to ₱286.2 million and ₱19.7 million, respectively.

Compositions of the Group's net deferred tax liabilities reported in the consolidated statements of financial position follow:

|   | 2019                    | 2018             |
|---|-------------------------|------------------|
| Deferred tax assets on:   |                         |                  |
| Lease liabilities   | <b>₱633,871,992</b>     | ₱-               |
| Unfunded pension benefits   | <b>357,667,273</b>      | 252,021,442      |
| Accrued interest expense  | <b>126,766,378</b>      | 242,597,937      |
| Allowance for impairment losses on receivables and property, plant and equipment                            | <b>14,302,980</b>       | 14,302,980       |
| MCIT carryforward   | <b>10,782,821</b>       | 2,168,956        |
| Accrued rent  | -                       | 519,347,421      |
| Others  | <b>360,494,894</b>      | 243,460,224      |
| <b>Total</b>  | <b>1,503,886,338</b>    | 1,273,898,960    |
| Deferred tax liabilities on:  |                         |                  |
| Intangibles   | <b>(2,945,109,949)</b>  | (2,965,938,522)  |
| Unamortized capitalized interest  | <b>(1,915,811,772)</b>  | (1,961,848,143)  |
| Excess of real estate revenue based on percentage-of-completion over real estate revenue based on tax rules | <b>(2,324,264,799)</b>  | (1,870,869,852)  |
| Undistributed income of foreign subsidiaries  | <b>(759,708,553)</b>    | (708,771,887)    |
| Accrued rent income   | <b>(580,166,328)</b>    | (428,569,111)    |
| Accelerated depreciation  | <b>(483,787,981)</b>    | (506,773,573)    |
| Right-of-use asset  | <b>(351,520,199)</b>    | -                |
| Foreign subsidiaries  | <b>(322,597,396)</b>    | (446,906,513)    |
| Borrowing cost  | <b>(71,832,394)</b>     | (71,832,394)     |
| Prepaid rent  | -                       | (134,440,664)    |
| Others  | <b>(67,169,121)</b>     | (55,172,243)     |
|   | <b>(9,821,968,492)</b>  | (9,151,122,902)  |
| <b>Net deferred tax liability</b>   | <b>(₱8,318,082,154)</b> | (₱7,877,223,942) |

The following are the temporary differences on which the Group did not recognize deferred tax assets:

|  | 2019                  | 2018           |
|--|-----------------------|----------------|
| NOLCO  | <b>₱5,792,411,145</b> | ₱5,020,644,766 |
| Allowance for credit and impairment losses                                 | <b>512,184,249</b>    | 3,226,753,778  |
| Net pension liability  | <b>205,673,061</b>    | 96,053,605     |
| Allowance for inventory write-down   | <b>170,883,405</b>    | 170,883,405    |
| Excess MCIT over RCIT  | <b>58,297,770</b>     | 4,727,209      |
| Unamortized contribution of past service costs                             | <b>14,611,456</b>     | 19,924,712     |
| Unrealized foreign exchange losses   | -                     | 46,678,473     |
| Unearned income  | -                     | 34,061,408     |
| Accumulated depreciation of investment properties and repossessed chattels | -                     | 2,288,583      |
| Accrued rent   | -                     | 49,867,543     |
|  | <b>₱6,754,061,086</b> | ₱8,671,883,482 |

Under Section 11 of R. A. No. 7151 (CAI's Congressional Franchise) and under Section 15 of R. A. No. 9517 (Cebgo, Inc.'s Congressional Franchise), known as the "ipso facto clause" and the "equality clause", respectively, the CAI and Cebgo, Inc. are allowed to benefit from the tax privileges being

enjoyed by competing airlines. CAI's and Cebgo, Inc.'s major competitor, by virtue of PD No. 1590, is enjoying tax exemptions which are likewise being claimed by the CAI and Cebgo, Inc., if applicable, including but not limited to the following:

- a.) To depreciate its assets to the extent of not more than twice as fast the normal rate of depreciation; and
- b.) To carry over as a deduction from taxable income any net loss (NOLCO) incurred in any year up to five years following the year of such loss.

Included in the Group's NOLCO and MCIT is Cebgo, Inc.'s NOLCO and MCIT as follows:

#### NOLCO

| Year Incurred | Amount       | Applied        | Expired | Balance | Expiry Year |
|---------------|--------------|----------------|---------|---------|-------------|
| 2014          | ₱685,506,938 | (₱685,506,938) | ₱-      | ₱-      | 2019        |
|               | ₱685,506,938 | (₱685,506,938) | ₱-      | ₱-      |             |

#### MCIT

| Year Incurred | Amount      | Applied      | Expired      | Balance     | Expiry Year |
|---------------|-------------|--------------|--------------|-------------|-------------|
| 2016          | ₱14,152,299 | (₱6,345,043) | (₱7,807,256) | ₱-          | 2019        |
| 2017          | 9,021,420   | -            | -            | 9,021,420   | 2020        |
| 2018          | 3,184,853   | -            | -            | 3,184,853   | 2021        |
|               | ₱26,358,572 | (₱6,345,043) | (₱7,807,256) | ₱12,206,273 |             |

CAI has outstanding registrations with the BOI as a new operator of air transport on a pioneer and non-pioneer status under the Omnibus Investments Code of 1987 (Executive Order 226). On all existing registrations, the Parent Company can avail of bonus years in certain specified cases but the aggregate ITH availments (basic and bonus years) shall not exceed eight years.

As of December 31, 2019 and 2018, CAI has complied with externally imposed capital requirements set by the BOI in order to avail of the ITH incentives for aircraft of registered activity.

Reconciliation between the Group's statutory income tax rate and the effective income tax rate follows:

|   | 2019          | 2018   | 2017   |
|---|---------------|--------|--------|
| Statutory income tax rate                           | <b>30.00%</b> | 30.00% | 30.00% |
| Tax effects of:                                     |               |        |        |
| Income exempt from tax                              | <b>(1.19)</b> | (2.08) | (1.53) |
| Equity in net earnings of affiliates                | <b>(8.34)</b> | (9.24) | (6.60) |
| Net income of subsidiaries with different tax rates | <b>(4.47)</b> | (0.41) | (2.56) |
| Income subjected to BOI, PEZA and ITH               | <b>(5.57)</b> | (7.93) | (9.50) |
| Changes in unrecognized deferred tax assets         | <b>0.10</b>   | 2.43   | (2.30) |
| Interest income subject to final tax                | <b>(1.08)</b> | (0.65) | (0.33) |
| Non-deductible items                                | <b>0.78</b>   | 0.73   | 0.58   |
| Taxable gain on sale to a subsidiary                | <b>0.00</b>   | 0.96   | 4.33   |
| Others  | <b>0.95</b>   | 1.76   | 0.13   |
| Effective income tax rate                           | <b>11.18%</b> | 15.57% | 12.22% |

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### 39. Earnings Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the Parent Company divided by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following tables reflect the net income and share data used in the basic/dilutive EPS computations:

*Earnings per share attributable to equity holders of the Parent Company*

|   | 2019                   | 2018            | 2017            |
|---|------------------------|-----------------|-----------------|
| Income attributable to equity holders of the Parent Company           | <b>₱31,285,246,332</b> | ₱19,186,040,273 | ₱29,369,537,456 |
| Less: Dividends on preferred shares (Note 25)                         | <b>14,800,000</b>      | 12,000,000      | 11,200,000      |
| Income attributable to holders of common shares of the Parent Company | <b>₱31,270,446,332</b> | ₱19,174,040,273 | ₱29,358,337,456 |
| Weighted average number of common shares                              | <b>7,162,841,657</b>   | 7,162,841,657   | 7,162,841,657   |
| Basic/diluted earnings per share                                      | <b>₱4.37</b>           | ₱2.68           | ₱4.10           |

There were no potential dilutive common shares in 2019, 2018 and 2017.

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### 40. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties and are generally settled in cash. Due from and due to related parties are collectible/payable on demand.

In addition to the related party information disclosed elsewhere in the consolidated financial statements, the year-end balances in respect of related parties follow:

| Related Party            | Outstanding Balance   |                 |                                 |                                   | Terms   | Conditions              |
|--------------------------|---|-----------------|---------------------------------|-----------------------------------|---|-------------------------|
|                          | Category/Transaction  | Amount/Volume   | Statement of Financial Position | Statement of Comprehensive Income |   |                         |
| <b>Subsidiaries:</b>     |   |                 |                                 |                                   |   |                         |
| Due from related parties |   |                 |                                 |                                   |   |                         |
|                          | Availment of advances   | ₱299,788,042    | ₱697,281,544                    | ₱—                                | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Rent receivables  | (53,719,421)    | 15,717,251                      | —                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Other receivables / other income: allocation of IT charges and CCU expenses |                 |                                 |                                   |   |                         |
|                          | Rent income   | 475,379,501     | 352,705,736                     | 475,379,501                       | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          |   | 131,196,484     | —                               | 131,196,484                       | On demand; Non-interest bearing   | Unsecured; Not impaired |
| Due to related parties   | Management fees   | 54,600,000      | —                               | 54,600,000                        | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Availment of advances   | 430,833,644     | 3,258,985,329                   | —                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
| Cash in bank             | Deposits  | (4,847,776)     | 31,101                          | —                                 | On demand   | Unsecured               |
| Cash equivalents         | Money market placements   | (1,435,086,098) | 10,000,000                      | —                                 | 2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04% | Unsecured; Not impaired |
| Dividends                | Dividend receivable   | (6,273,626)     | 1,593,529,595                   | —                                 | On demand   | Unsecured; Not impaired |
|                          | Dividend income   | 8,768,329,504   | —                               | 8,768,329,504                     | On demand; Non-interest bearing   | Unsecured; Not impaired |
| <b>Associate:</b>        |   |                 |                                 |                                   |   |                         |
| Due from related parties | Availment of advances   | 392,868         | 642,786                         | —                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Dividend income   | 6,119,759,438   | —                               | 6,119,759,438                     |   |                         |
|                          | Rent income   | 649,211         | —                               | 649,211                           |   |                         |
|                          | Other receivables / other income: allocation of CCU expenses                | 200,672         | 3,896                           | 200,672                           |   |                         |
|                          | Utilities expense   | 7,077,657       | —                               | 7,077,657                         |   |                         |

2019

| Related Party   | Outstanding Balance  |               |                                 |                                   | Terms                      | Conditions |
|---|----------------------|---------------|---------------------------------|-----------------------------------|----------------------------|------------|
|   | Category/Transaction | Amount/Volume | Statement of Financial Position | Statement of Comprehensive Income |                            |            |
| <b>Other Related Parties:</b>   |                      |               |                                 |                                   |                            |            |
| Due from related parties  |                      |               |                                 |                                   |                            |            |
| Settlement of advances  | (P30,931,424)        | P452,019,131  | P-                              | On demand; Non-interest bearing   | Unsecured;<br>Not impaired |            |
| Rent receivables  | (32,195,309)         | 302,878       | -                               | On demand; Non-interest bearing   | Unsecured;<br>Not impaired |            |
| Rent income   | 1,629,159            | -             | 1,629,159                       |                                   |                            |            |
| Other receivables / other income: allocation of IT charges and CCU expenses       | 118,661,846          | 177,152,243   | 118,661,846                     | On demand; Non-interest bearing   | Unsecured;<br>Not impaired |            |
| Settlement of advances  | (174,443,960)        | 1,051,214     | -                               | On demand; Non-interest bearing   | Unsecured;<br>Not impaired |            |
| Director's fees (included under 'Management and other professional fees' account) | 8,750,000            | -             | 8,750,000                       |                                   |                            |            |

2018

| Related Party            | Category/Transaction    | Outstanding Balance |                                 |                                   | Terms  | Conditions                 |
|--------------------------|-------------------------|---------------------|---------------------------------|-----------------------------------|--|----------------------------|
|                          |                         | Amount/Volume       | Statement of Financial Position | Statement of Comprehensive Income |  |                            |
| Subsidiaries:            |                         |                     |                                 |                                   |  |                            |
| Due from related parties | Settlement of advances  | (₱847,983,679)      | ₱397,493,502                    | ₱-                                | On demand; Non-interest bearing  | Unsecured;<br>Not impaired |
|                          | Rent receivable         | (8,048,397)         | 69,436,672                      | -                                 | On demand; Non-interest bearing  | Unsecured;<br>Not impaired |
|                          | Rent income             | 127,110,159         | -                               | 127,110,159                       |  |                            |
|                          | Other income            | 439,642,623         | -                               | 439,642,623                       |  |                            |
|                          | Rent expense            | 46,165,790          | -                               | 46,165,790                        |  |                            |
|                          | Management fees         | 64,200,000          | -                               | 64,200,000                        |  |                            |
| Due to related parties   | Settlement of advances  | -                   | 2,828,151,685                   | -                                 |  |                            |
| Cash in bank             | Deposits                | 607,508             | 4,878,877                       | -                                 | On demand; Non-interest bearing  | Unsecured                  |
| Cash equivalents         | Money market placements | 1,282,658,628       | 1,445,086,098                   | -                                 | On demand; Non-interest bearing with interest rate ranging from 1.50% to 2.04% | Unsecured                  |
|                          | Interest income         | 3,273,543           | -                               | 3,273,543                         | 2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04%  |                            |
| Dividends                | Dividend receivable     | 1,023,646,756       | -                               | -                                 | 2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5%    |                            |
|                          | Dividend income         | 6,869,729,393       | 1,599,803,221                   | -                                 | On demand  | Unsecured                  |
| Associate:               |                         |                     |                                 |                                   |  |                            |
| Due from related parties | Settlement of advances  | (110,518)           | 249,918                         | -                                 | On demand; Non-interest bearing  | Unsecured;<br>Not impaired |
|                          | Dividend income         | 5,206,741,374       | -                               | 5,206,741,374                     |  |                            |
|                          | Rent income             | 618,297             | -                               | 618,297                           |  |                            |
|                          | Utilities expense       | 9,512,374           | -                               | 9,512,374                         |  |                            |

(Forward)

2018

| Related Party   | Category/Transaction   | Amount/Volume | Outstanding Balance             |                                   | Terms                           | Conditions              |
|---|------------------------|---------------|---------------------------------|-----------------------------------|---------------------------------|-------------------------|
|   |                        |               | Statement of Financial Position | Statement of Comprehensive Income |                                 |                         |
| Other Related Parties:  |                        |               |                                 |                                   |                                 |                         |
| Due from related parties  |                        |               |                                 |                                   |                                 |                         |
|   | Settlement of advances | (₱7,430,489)  | ₱412,886,471                    | ₱-                                | On demand; Non-interest bearing | Unsecured; Not impaired |
|   | Rent receivable        | 32,498,188    | 32,498,188                      | -                                 | On demand; Non-interest bearing | Unsecured; Not impaired |
|   | Other income           | 148,322,654   | -                               | 148,322,654                       |                                 |                         |
|   | Rent income            | 128,661,739   | -                               | 128,661,739                       |                                 |                         |
| Due to related parties  |                        |               |                                 |                                   |                                 |                         |
| Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income) | Settlement of advances | -             | 1,217,665                       | -                                 | On demand; Non-interest bearing | Unsecured; Not impaired |
|   | Expenses               | 8,500,000     | -                               | 8,500,000                         |                                 |                         |

| Related Party            | Category/Transaction                | Outstanding Balance |                                 |                                   | Terms   | Conditions              |
|--------------------------|-------------------------------------|---------------------|---------------------------------|-----------------------------------|---|-------------------------|
|                          |                                     | Amount/Volume       | Statement of Financial Position | Statement of Comprehensive Income |   |                         |
| <b>Subsidiaries:</b>     |                                     |                     |                                 |                                   |   |                         |
| Due from related parties | Settlement of advances              | ₱350,490,176        | ₱1,245,477,181                  | ₱-                                | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Rent receivable                     | 49,583,786          | 77,485,069                      | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Receivable                          | 4,842,826,400       | 4,842,826,400                   | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Rent income                         | 176,088,179         | -                               | 176,088,179                       |   |                         |
|                          | Other income                        | 241,130,242         | -                               | 241,130,242                       |   |                         |
|                          | Rent expense                        | 39,675,747          | -                               | 39,675,747                        |   |                         |
|                          | Management fees                     | 105,074,286         | -                               | 105,074,286                       |   |                         |
|                          | Gain on sale of investment property | 6,491,059,867       | -                               | 6,491,059,867                     |   |                         |
| Due to related parties   | Settlement of advances              | (11,690,874,584)    | 2,537,388,955                   | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
| Cash in bank             | Deposits                            | 4,131,669           | 4,271,369                       | -                                 | On demand   | Unsecured               |
| Cash equivalents         | Money market placements             | (151,273,367)       | 162,427,470                     | -                                 | 2 to 41 days; Interest bearing with interest rate ranging from 1.50% to 2.04% | Unsecured               |
|                          | Interest income                     | 3,273,543           | -                               | 3,273,543                         | 2 to 33 days; Interest bearing with interest rate ranging from 0.5% to 1.5%   |                         |
| Dividends                | Dividend receivable                 | 367,901,000         | 576,156,465                     | -                                 | On demand   | Unsecured               |
|                          | Dividend income                     | 9,628,984,655       | -                               | 9,628,984,655                     |   |                         |
| <b>Associate:</b>        |                                     |                     |                                 |                                   |   |                         |
| Due from related parties | Settlement of advances              | (108,850)           | 360,436                         | -                                 | On demand; Non-interest bearing   | Unsecured; Not impaired |
|                          | Dividend income                     | 6,476,626,760       | -                               | 6,476,626,760                     |   |                         |
|                          | Rent income                         | 588,853             | -                               | 588,853                           |   |                         |
|                          | Rent receivable                     | (103,263)           | 56,995                          | -                                 |   |                         |
|                          | Utilities expense                   | 7,913,620           | -                               | 7,913,620                         |   |                         |

(Forward)

2017

|   | Outstanding Balance             |               |                                 |                                   | Terms                           | Conditions                 |
|---|---------------------------------|---------------|---------------------------------|-----------------------------------|---------------------------------|----------------------------|
|   | Category/Transaction            | Amount/Volume | Statement of Financial Position | Statement of Comprehensive Income |                                 |                            |
| <b>Related Party</b>  |                                 |               |                                 |                                   |                                 |                            |
| <b>Other Related Parties:</b>   |                                 |               |                                 |                                   |                                 |                            |
| Due from related parties  |                                 | (P4,151,841)  | P420,316,960                    | P—                                | On demand; Non-interest bearing | Unsecured;<br>Not impaired |
|   | Rent receivable                 | 24,392,795    | 24,392,795                      | —                                 | On demand; Non-interest bearing | Unsecured;<br>Not impaired |
|   | Other income                    | 61,411,050    | —                               | 61,411,050                        |                                 |                            |
|   | Rent income                     | 35,977,368    | —                               | 35,977,368                        |                                 |                            |
| Due to related parties  |                                 | (202,512)     | 1,217,665                       | —                                 | On demand; Non-interest bearing | Unsecured;<br>Not impaired |
| Director's fees (included under 'Management and other professional fees' account in the parent company statement of comprehensive income) | Settlement of advances Expenses | 8,500,000     | —                               | 8,500,000                         |                                 |                            |

The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries as discussed in Note 23 to the consolidated financial statements. No fees are charged for these guarantee agreements. Being the centralized treasury department within the Group, the Parent Company usually receives advances from subsidiaries and in turn, makes advances to other subsidiaries.

Interest earned by the Parent Company on transactions with related parties amounted to nil in 2019 and 2018. Interest expense incurred amounted to nil in 2019 and 2018.

Most of the aforementioned intercompany transactions between the Parent Company and its subsidiaries are eliminated in the accompanying consolidated financial statements.

*Transactions with the retirement plan*

The retirement fund of the Parent Company's employees amounted to ₱10.7 million and ₱10.4 million as of December 31, 2019 and 2018, respectively. The fund is being managed by JG Summit Multi-Employer Retirement Plan (MERP), a corporation created for the purpose of managing the funds of the Group, with RBC as the trustee.

The retirement plan under the MERP has an Executive Retirement Committee, that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the plan. Certain members of the BOD of the Parent Company are represented in the Executive Retirement Committee. RBC manages the plan based on the mandate as defined in the trust agreement.

*Compensation of key management personnel*

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's pension plans.

The compensation of the Group's key management personnel by benefit type follows:

|                              | 2019                  | 2018           | 2017           |
|------------------------------|-----------------------|----------------|----------------|
| Short-term employee benefits | <b>₱2,430,499,658</b> | ₱1,727,072,228 | ₱1,522,647,267 |
| Post-employment benefits     | <b>256,845,114</b>    | 222,481,457    | 172,508,677    |
|                              | <b>₱2,687,344,772</b> | ₱1,949,553,685 | ₱1,695,155,944 |

Approval requirements and limits on the amount and extent of related party transactions

Material related party transactions (MRPT) refers to any related party transactions, either individually, or in aggregate over a twelve (1)-month with the same related party, amounting to ten percent (10%) or higher of the Group's total consolidated assets based on its latest audited financial statements.

All individual MRPTs shall be approved by at least two-thirds (2/3) vote of the BOD, with at least a majority of the Independent Directors voting to approve the MRPT. In case that a majority of the Independent Directors' vote is not secured, the MRPT may be ratified by the vote of the stockholders representing at least two thirds (2/3) of the outstanding capital stock.

Aggregate RPT transactions within a 12-month period that meets or breaches the materiality threshold shall require the same BOD approval mentioned above.

#### 41. Registration with Government Authorities/Franchise

Certain operations of consolidated subsidiaries are registered with the BOI as preferred pioneer and non-pioneer activities, and are granted various authorizations from certain government authorities. As registered enterprises, these consolidated subsidiaries are subject to certain requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

#### 42. Leases

The Group's leases mostly pertain to land, office spaces, commercial and residential properties, passenger aircraft and flight equipment, transportation and equipment. Leases of land, office spaces, commercial and residential properties, and transportation and equipment generally have terms ranging from 2 to 50 years, while passenger aircraft and other equipment generally have terms between 1.25 and 18 years.

The Group also has certain leases of other flight equipment, furnitures and fixtures and machineries with lease terms of 12 months or less, and leases of office spaces considered low-value. The Group applies the recognition exemptions for these type of leases.

##### Right-of-use Assets

Set out below are the carrying amounts of ROU assets recognized and the movements during the year ended December 31, 2019:

|   | Land and Land<br>Improvements | Buildings and<br>Improvements | Passenger Aircraft<br>and Other Flight<br>Equipment | Transportation<br>And<br>Other Equipment | Total           |
|---|-------------------------------|-------------------------------|---|--|-----------------|
| <b>Cost</b>   |                               |                               |   |  |                 |
| Balance at beginning of year, as<br>previously reported | ₱-                            | ₱-                            | ₱-  | ₱-                                       | ₱-              |
| Effect of adoption of PFRS 16                           | 1,587,751,749                 | 676,983,333                   | 16,426,809,577                                      | 60,347,705                               | 18,751,892,364  |
| Balance at beginning of year, as<br>restated            | 1,587,751,749                 | 676,983,333                   | 16,426,809,577                                      | 60,347,705                               | 18,751,892,364  |
| Additions   | -                             | 1,296,873,096                 | 7,302,225,494                                       | 30,581,128                               | 8,629,679,718   |
| Other adjustments                                       | 1,347,536                     | (108,074,845)                 | -   | (7,758,360)                              | (114,485,669)   |
| Balance at end of year                                  | 1,589,099,285                 | 1,865,781,584                 | 23,729,035,071                                      | 83,170,473                               | 27,267,086,413  |
| <b>Accumulated Depreciation</b>                         |                               |                               |   |  |                 |
| Balance at beginning of year, as<br>previously reported | -                             | -                             | -   | -  | -               |
| Effect of adoption of PFRS 16                           | 152,552,800                   | -                             | -   | -  | 152,552,800     |
| Balance at beginning of year, as<br>restated            | 152,552,800                   | -                             | -   | -  | 152,552,800     |
| Depreciation  | 73,455,818                    | 556,228,966                   | 5,917,994,261                                       | 45,472,937                               | 6,593,151,982   |
| Other adjustments                                       | 40,504                        | (3,991,667)                   | -   | (6,088,503)                              | (10,039,666)    |
| Balance at end of year                                  | 226,049,122                   | 552,237,299                   | 5,917,994,261                                       | 39,384,433                               | 6,735,665,116   |
| Net Book Value at End of Year                           | ₱1,363,050,163                | ₱1,313,544,285                | ₱17,811,040,810                                     | ₱43,786,040                              | ₱20,531,421,297 |

Lease Liabilities

The rollforward analysis of the Group's lease liabilities as at December 31, 2019 follows:

|   |                        |
|---|------------------------|
| As at January 1, 2019, as previously reported | ₱–                     |
| Effect of adoption of PFRS 16                 | 19,279,144,855         |
| As at January 1, 2019, as restated            | 19,279,144,855         |
| Additions                                     | 8,607,042,558          |
| Accretion (Note 35)                           | 715,156,294            |
| Payments                                      | (7,453,216,220)        |
| Cumulative translation adjustment             | (43,972,851)           |
| As at December 31, 2019                       | <u>₱21,104,154,636</u> |

Total lease liabilities shown in the 2019 consolidated statement of financial position follow:

|                              |                        |
|------------------------------|------------------------|
| Current portion (Note 22)    | ₱5,784,084,993         |
| Noncurrent portion (Note 24) | 15,320,069,643         |
|                              | <u>₱21,104,154,636</u> |

The maturity analysis of lease liabilities are disclosed in Note 4, *Financial Risk Management Objectives and Policies*.

Total cash payments in 2019 for the Group's leases amounted to ₱7.5 billion, of which ₱98 million pertain to variable lease payments. The Group also had non-cash additions to ROU assets and lease liabilities of ₱7.4 billion in 2019.

Summarized below are the amounts recognized in the 2019 consolidated statement of comprehensive income in relation to the Group's leases:

|   |                       |
|---|-----------------------|
| <b>Revenue</b>  |                       |
| Sale of goods and services - rental income and sublease income  |                       |
| Foods   | ₱117,385,869          |
| Real estate and hotels  | 15,420,499,255        |
| Banking   | 17,279,825            |
|   | <u>15,555,164,949</u> |
| <b>Cost of Sales and Services</b>                               |                       |
| Cost of services - depreciation of ROU assets                   | 215,105,516           |
| Rent expense - short term leases                                | 205,284,893           |
|   | <u>420,390,409</u>    |
| <b>General and Administrative Expenses</b>                      |                       |
| Depreciation of ROU assets                                      | 6,378,046,466         |
| Rent expense - short term leases                                | 1,815,851,448         |
| Rent expense - leases of low-valued assets                      | 8,511,369             |
|   | <u>8,202,409,283</u>  |
| <b>Other Income (Losses)</b>                                    |                       |
| Foreign exchange gain   | 74,683,864            |
| Finance cost and other charges – accretion of lease liabilities | (715,156,294)         |
|   | <u>₱6,291,892,827</u> |

The following provides information on the Group's variable lease payments in 2019:

|                    | <b>Fixed<br/>payments</b> | <b>Variable<br/>payments</b> | <b>Total</b>          |
|--------------------|---------------------------|------------------------------|-----------------------|
| Fixed rent         | ₱7,354,727,373            | ₱–                           | ₱7,354,727,373        |
| Variable rent only | –                         | 98,488,847                   | 98,488,847            |
|                    | <b>₱7,354,727,373</b>     | <b>₱98,488,847</b>           | <b>₱7,453,216,220</b> |

## URC

### *Operating Lease Commitments - Group as a Lessee*

The URC Group leases land where certain of its facilities are located. The operating lease agreements are for periods ranging from one to five years from the date of the contracts and are renewable under certain terms and conditions. URC's rentals incurred on these leases (included under 'Selling and distribution costs' and 'General and administrative expenses' in the consolidated statements of comprehensive income) amounted to ₱682.2 million, ₱937.6 million and ₱976.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Future minimum lease payments under noncancellable operating leases of the URC Group follow:

|  | <b>2019</b>           | 2018                  | 2017                  |
|--|-----------------------|-----------------------|-----------------------|
| Within one year                                | <b>₱764,674,589</b>   | ₱752,048,217          | ₱792,639,232          |
| After one year but not more than<br>five years | <b>2,280,129,598</b>  | 1,362,757,872         | 1,708,022,477         |
| Five years or more                             | <b>5,857,143,316</b>  | 464,770,770           | 506,731,716           |
|  | <b>₱8,901,947,503</b> | <b>₱2,579,576,859</b> | <b>₱3,007,393,425</b> |

### *Operating Lease Commitments - Group as a Lessor*

The URC Group has entered into one-year renewable, noncancellable leases with various related parties covering certain land and buildings where office spaces are located.

Future minimum lease receivables under noncancellable operating leases of the URC Group that are due within one year amounted to ₱72.5 million, ₱73.3 million and ₱63.7 million in 2019, 2018 and 2017, respectively.

### *Finance Lease Commitments - Group as a Lessee*

Some of the URC Group's subsidiaries were granted land usage rights from private entities. The land usage right represents the prepaid amount of land lease payments. The right is currently being amortized by the URC Group on a straight-line basis over the term of the right ranging from 30 to 50 years. The amortization on these leases (included under 'General and administrative expenses' in the consolidated statements of comprehensive income) amounted to ₱5.2 million, ₱2.5 million and ₱2.4 million in 2019, 2018 and 2017, respectively.

## RLC

### *Group as a Lessee*

The RLC Group has lease contracts for various parcels of land used in its operations. Leases of land generally have lease terms between 25 and 50 years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments.

The RLC Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Future minimum lease payments under noncancellable operating leases of RLC's certain lessee subsidiaries follow:

|   | 2019                  | 2018           |
|---|-----------------------|----------------|
| Within one year                             | <b>₱138,995,906</b>   | ₱128,337,691   |
| After one year but not more than five years | <b>630,780,039</b>    | 589,327,721    |
| Over five years                             | <b>5,767,109,430</b>  | 5,953,173,907  |
|   | <b>₱6,536,885,375</b> | ₱6,670,839,319 |

*Operating Lease Commitments - Group as a Lessor*

The RLC Group has entered into commercial property leases on its investment property portfolio. These noncancellable leases have remaining lease terms of between one and ten years. All leases include a clause to enable upward revision of the rental charge on an annual basis based on prevailing market conditions. The lease contracts also provide for the percentage rent, which is a certain percentage of actual monthly sales or minimum monthly gross sales, whichever is higher. Total rent income (included under 'Real estate and hotels revenue' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱15.4 billion, ₱13.5 billion and ₱11.6 billion in 2019, 2018 and 2017, respectively. Total percentage rent recognized as income amounted to ₱3.9 billion, ₱3.5 billion and ₱3.1 billion in 2019, 2018 and 2017, respectively.

Future minimum lease receivables under noncancellable operating leases of the RLC Group follow:

|   | 2019                   | 2018            | 2017            |
|---|------------------------|-----------------|-----------------|
| Within one year                             | <b>₱14,346,692,713</b> | ₱11,590,512,976 | ₱6,263,952,404  |
| After one year but not more than five years | <b>17,739,106,757</b>  | 17,971,125,898  | 8,250,489,462   |
| Over five years                             | <b>5,146,915,176</b>   | 2,377,232,451   | 923,369,939     |
|   | <b>₱37,232,714,646</b> | ₱31,938,871,325 | ₱15,437,811,805 |

*Finance Lease Commitments - Group as a Lessor*

RLC has significantly entered into residential property leases on its residential condominium unit's portfolio. These leases have lease period of five (5) to ten (10) years and the lessee is given the right to purchase the property anytime within the lease period that the lessee any arrears in rental payment, condominium dues and other charges.

Future minimum lease payments under finance lease with the present value of future minimum lease payment as of December 31, 2019 and 2018 follow:

|   | 2019                      |   |
|---|---------------------------|---|
|   | Minimum Lease<br>Payments | Present Value of<br>Minimum Lease<br>Payments |
| Within one year                             | <b>₱527,064,357</b>       | <b>₱508,606,027</b>                           |
| After one year but not more than five years | <b>288,662,164</b>        | <b>256,322,263</b>                            |
| Over five years                             | <b>78,023,547</b>         | <b>63,354,682</b>                             |
| Total minimum lease payments                | <b>₱893,750,068</b>       | <b>₱828,282,972</b>                           |

|   | 2018                      |   |
|---|---------------------------|---|
|   | Minimum Lease<br>Payments | Present Value of<br>Minimum Lease<br>Payments |
| Within one year                             | ₱552,580,889              | ₱517,494,745                                  |
| After one year but not more than five years | 302,637,036               | 247,180,550                                   |
| Over five years                             | 81,800,866                | 58,213,995                                    |
| <b>Total minimum lease payments</b>         | <b>₱937,018,791</b>       | <b>₱822,889,290</b>                           |

### JGSPC

#### *Operating Lease Commitments - Company as a Lessee*

JGSPC has entered into contracts of lease for its Cybergate office and the shuttle bus that transports its employees from Balagtas to Batangas plant with lease term of three years and one year, respectively. Rental expense charged to operations (included under 'Cost of sales and services' and 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱45.8 million and ₱35.7 million in 2018 and 2017, respectively.

Future minimum lease payments under the noncancellable lease of JGSPC's office space follow:

|   | 2018                | 2017               |
|---|---------------------|--------------------|
| Within one year                             | <b>₱39,678,682</b>  | ₱13,337,457        |
| After one year but not more than five years | <b>116,096,379</b>  | 17,480,912         |
|   | <b>₱155,775,061</b> | <b>₱30,818,369</b> |

#### *Operating Lease Commitments - Group as a Lessor*

JGSPC has entered into commercial property leases. JGSPC has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases.

Rental income amounted to ₱0.2 million for the years ended December 31, 2019, 2018 and 2017.

Future minimum rentals receivable under the non-cancellable lease as of December 31, 2019 amounted to ₱0.1 million.

### CAI

#### *Operating Aircraft Lease Commitments - Group as a Lessee*

CAI entered into operating lease agreements with certain leasing companies which cover the following aircraft:

#### *A320 CEO aircraft*

The following table summarizes the specific lease agreements on CAI's Airbus A320 CEO aircraft:

| <b>Date of Lease Agreement</b> | <b>Lessors</b>                             | <b>No. of Units</b> | <b>Lease Term</b> |
|--------------------------------|--|---------------------|-------------------|
| March 2008                     | Lunar Aircraft Trading Company Limited     | 1                   | January 2021      |
| March 2008                     | Aircraft MSN 3762 LLC                      | 1                   | January 2022      |
| March 2008                     | APTREE Aviation Trading 2 Co. Ltd          | 1                   | October 2021      |
|                                | Wells Fargo Bank Northwest National Assoc. | 1                   | October 2021      |
| July 2011                      | SMBC Aviation Capital Limited              | 2                   | March 2020        |
| November 2017                  | JPA No. 78 Co., Ltd                        | 1                   | August 2020       |
| November 2017                  | JPA No. 79 Co., Ltd                        | 1                   | October 2020      |
| November 2017                  | JPA No. 80 Co., Ltd                        | 1                   | January 2021      |

| <b>Date of Lease Agreement</b> | <b>Lessors</b>      | <b>No. of Units</b> | <b>Lease Term</b> |
|--------------------------------|---------------------|---------------------|-------------------|
| November 2017                  | JPA No. 81 Co., Ltd | 1                   | February 2021     |
| July 2018                      | JPA No. 117 Co. Ltd | 1                   | September 2021    |
| July 2018                      | JPA No. 118 Co. Ltd | 1                   | December 2021     |
| August 2018                    | JPA No. 119 Co. Ltd | 1                   | June 2022         |

From 2007 to 2008, CAI entered into operating lease agreements with Celestial Aviation Trading 17/19/23 Limited for five (5) Airbus A320 which were delivered on various dates from 2007 to 2011. The lease agreements were later on amended to effect the novation of lease rights from the original lessors to current lessors: Inishcrean Leasing Limited for (1) Airbus A320, GY Aviation Lease 0905 Co. Limited for two (2) Airbus A320, APTREE Aviation Trading 2 Co. Limited for one (1) Airbus A320, and Wells Fargo Trust Company, N.A. for one (1) Airbus A320.

In July 2011, CAI entered into an operating lease agreement with RBS Aerospace Ltd. (RBS) for the lease of two Airbus A320 aircraft, which were delivered in March 2012. The lease agreement with RBS was amended to effect the novation of lease rights by the original lessor to current lessor, SMBC Aviation Capital Limited, as allowed under the existing lease agreements.

In 2015 to 2016, CAI extended the lease agreement with Inishcrean for three years and with GY Aviation Lease 0905 Co. Limited for two years.

In 2017, the Group entered into lease agreements with ILL for two Airbus A320 and with JPA No. 78/79/80/81 Co., Ltd for four (4) Airbus A320 (Note 13).

In 2018, CAI separately extended the lease agreements with APTREE Aviation Trading 2 Co. Ltd for two years, with Wells Fargo Trust Company, N.A for four years, and with GY Aviation Lease 0905 Co. Limited for another two years on one aircraft and three years on the other.

In July and August 2018, CAI entered into lease agreements with JPA No. 117/118/119 Co., Ltd for three (3) Airbus A320.

In May and August 2019, the lease agreements of the two aircraft under GY Aviation Lease 0905 Co. Limited were amended to effect the novation of lease rights to their current lessors, Aircraft MSN 3762 LLC and Lunar Aircraft Trading Company Limited.

#### *A320NEO aircraft*

On July 26, 2018, CAI entered into 8-year lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO for delivery on various dates within 2019.

The first four (4) Airbus A320NEO aircraft were delivered in June, July, September and October 2019 under Avolon Leasing Ireland 1 Limited as lessor. In November 2019, two (2) out of the four A320NEO aircraft were amended to effect the novation of lease rights to their current lessor, Orix Aviation Systems Limited.

#### *ATR 72-600 aircraft*

On May 10, 2019, CAI entered into a 10-year lease agreement with an early termination option on the 8<sup>th</sup> year with AVAP AIRCRAFT TRADING III PTE. LTD. for one (1) ATR 72-600. The aircraft was delivered in May 2019.

*A330CEO aircraft*

The following table summarizes the specific lease agreements on CAI's Airbus A330CEO aircraft:

| <b>Date of Lease Agreement</b> | <b>Lessors</b>   | <b>No. of Units</b> | <b>Lease Term</b>                    |
|--------------------------------|--|---------------------|--------------------------------------|
| February 2012                  | Wells Fargo Bank Northwest, N.A.<br>(not in its individual capacity but solely as Owner Trustee) | 1                   | 12 years with pre-termination option |
|                                | Wells Fargo Trust Company, N.A.<br>(not in its individual capacity but solely as Owner Trustee)  | 1                   |                                      |
|                                | CIT Aerospace International  | 1                   |                                      |
|                                | Avolon Aerospace AOE 165 Limited   | 1                   |                                      |
| July 2013                      | A330 MSN 1552 Limited and A330 MSN 1602 Limited*   | 2                   | 12 years with pre-termination option |

\*New lessors per Deed of Novation and Amendment signed on August 2014 and March 2015

In February 2012, CAI entered into operating lease agreements with Wells Fargo Bank Northwest, N.A. for the lease of four (4) Airbus A330-300 aircraft. The lease agreements were later on amended to effect the novation of lease rights from the original lessor to their current lessors: Wells Fargo Trust Company, N.A. (not in its individual capacity but solely as Owner Trustee), CIT Aerospace International, and Avolon Aerospace AOE 165 Limited.

In July 2013, CAI entered into aircraft operating lease agreements with Intrepid Aviation Management Ireland Limited for the lease of two (2) Airbus A330. The lease agreements have been amended to effect the novation of lease rights by the original lessor to current lessors, A330 MSN 1552 Limited and A330 MSN 1602 Limited.

The first two Airbus A330 aircraft were delivered in June 2013 and September 2013. Three A330 aircraft were delivered in February 2014, May 2014 and September 2014. One A330 aircraft was delivered in March 2015.

As of December 31, 2019, the Group has six (6) Airbus A330 aircraft under operating lease.

Future minimum lease payments under the above-indicated operating aircraft leases follow:

|   | 2019                       |                        | 2018                       |                        |
|---|----------------------------|------------------------|----------------------------|------------------------|
|   | Philippine peso equivalent | US dollar              | Philippine peso equivalent | US dollar              |
| Within one year                             | ₱5,886,821,930             | US\$116,225,507        | ₱6,056,939,009             | US\$115,194,732        |
| After one year but not more than five years | 9,082,979,509              | 179,328,322            | 21,014,364,405             | 399,664,595            |
| Over five years                             | 2,222,083,371              | 43,871,340             | 11,445,938,924             | 217,686,172            |
|   | <b>₱17,191,884,810</b>     | <b>US\$339,425,169</b> | <b>₱38,517,242,338</b>     | <b>US\$732,545,499</b> |

Lease expenses relating to aircraft leases (included in 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱0.3 billion and ₱5.7 billion in 2019 and 2018, respectively (see Note 31).

*Operating Non-Aircraft Lease Commitments - Group as a Lessee*

CAI has entered into various lease agreements for its hangar, office spaces, ticketing stations and certain equipment. These leases have remaining lease terms ranging from one to ten years. Certain leases include a clause to enable upward revision of the annual rental charge ranging from 5.0% to 10.0%.

Future minimum lease payments under these noncancellable operating leases of CAI follow:

|   | 2019                  | 2018           |
|---|-----------------------|----------------|
| Within one year                             | <b>₱211,101,521</b>   | ₱211,928,140   |
| After one year but not more than five years | <b>928,126,925</b>    | 891,261,764    |
| Over five years                             | <b>4,514,028,565</b>  | 4,318,073,237  |
|   | <b>₱5,653,257,011</b> | ₱5,421,263,141 |

Lease expenses relating to both cancellable and non-cancellable non-aircraft leases (allocated under different expense accounts in the consolidated statements of comprehensive income) amounted to ₱702.1 million, ₱760.0 million and ₱731.0 million in 2019, 2018 and 2017, respectively.

#### RBC and LSB

##### *Operating Lease Commitments - Group as a Lessee*

RBC leases its head office and branch premises for periods ranging from one (1) to ten (10) years, renewable upon mutual agreement of both parties. LSB also leases the premises occupied by its head offices and most of its branches for periods ranging from five (5) to fifteen (15) years, renewable upon mutual agreement of both parties. Various lease contracts of the Group include escalation clauses, most of which bear annual rent increase ranging from 5.0% to 10.0%.

Rent expense recognized by RBC and LSB (included under 'General and administrative expenses' in profit or loss in the consolidated statements of comprehensive income) amounted to ₱110.0 million, ₱340.1 and ₱315.2 million in 2019, 2018 and 2017, respectively.

Future minimum lease payments under these noncancellable operating leases of RBC and LSB follow:

|   | 2019                | 2018         |
|---|---------------------|--------------|
| Within one year                             | <b>₱258,948,338</b> | ₱264,987,929 |
| After one year but not more than five years | <b>525,022,763</b>  | 493,544,529  |
| Over five years                             | <b>29,891,105</b>   | 40,538,482   |
|   | <b>₱813,862,206</b> | ₱799,070,940 |

##### *Finance Lease - LSB as Lessor*

LSB has entered to a lease on its investment property portfolio. The lease contract provides an option to purchase the properties the end of the lease term. The lease has a lease term of ten (10) years, from April 30, 2009 to March 31, 2019. The building being leased out has an estimated useful life of ten (10) years.

As of December 31, 2018, the future minimum lease receivable under the finance lease as follows:

|  | Minimum Lease<br>Receivable | Interest   | Principal  |
|--|-----------------------------|------------|------------|
| Within one year                                | ₱10,562,500                 | ₱1,309,117 | (₱559,117) |
| After one year but not more<br>than five years | —                           | 339,868    | 9,660,132  |
|  | ₱10,562,500                 | ₱1,648,985 | ₱9,101,015 |

#### 43. Other Commitments and Contingent Liabilities

##### Parent Company

- JGSOC Loan Accommodation from Private Bank*  
On February 8, 2018, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Olefins Corporation from BDO Unibank in the aggregate principal amount of ₱15.0 billion including any extension, renewal or modification of such loan or credit accommodation.
- JGSPC Loan Accommodation from Private Bank*  
On February 8, 2018, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Petrochemical Corporation from BDO Unibank in the aggregate principal amount of ₱15.0 billion including any extension, renewal or modification of such loan or credit accommodation.
- JGSPC/JGSOC Loan Accommodation from Private Bank*  
On April 8, 2019, the BOD authorizes the Parent Company to guarantee the loan/credit accommodation of JG Summit Petrochemical Corporation and JG Summit Olefins Corporation from the Bank of the Philippine Islands in the aggregate principal amount of ₱17.0 billion including any extension, renewal or modification of such loan or credit accommodation.

##### CAI

##### *Capital Expenditure Commitments*

CAI's capital expenditure commitments relate principally to the acquisition of aircraft fleet, aggregating to ₱133.1 billion and ₱130.8 billion as of December 31, 2019 and 2018, respectively, which are payable over the following periods:

|  | December 31, 2019        |                       |                              | December 31, 2018        |                              |
|--|--------------------------|-----------------------|------------------------------|--------------------------|------------------------------|
|  | USDollar                 | JapaneseYen           | PhilippinePeso<br>Equivalent | USDollar                 | PhilippinePeso<br>Equivalent |
| Within one year                                | US\$386,807,413          | ¥1,506,555,004        | ₱20,294,256,870              | US\$427,214,639          | ₱22,462,945,700              |
| After one year but not more<br>than five years | 2,168,887,176            | 6,259,259,135         | 112,772,640,221              | 2,060,860,233            | 108,360,031,052              |
|  | <b>US\$2,555,694,589</b> | <b>¥7,765,814,139</b> | <b>₱133,066,897,091</b>      | <b>US\$2,488,074,872</b> | <b>₱130,822,976,752</b>      |

##### *Aircraft and Spare Engine Purchase Commitments*

In August 2011, CAI entered in a commitment with Airbus S.A.S. to purchase firm orders of thirty-two new A321 NEO Aircraft and ten addition option orders. These aircraft are scheduled to be delivered from 2018 to 2022.

On June 28, 2012, CAI has entered into an agreement with United Technologies International Corporation Pratt & Whitney Division to purchase new PurePower® PW1100G-JM engines for its 30 firm and ten options A321 NEO aircraft to be delivered beginning 2017. The agreement also includes an engine maintenance services program for a period of ten years from the date of entry into service of each engine.

On October 20, 2015 CAI entered into a Sale and Purchase Contract with Avions Transport Regional G.I.E. to purchase 16 firm ATR 72-600 aircraft and up to 10 additional option ATR 72-600 aircraft. These aircraft are scheduled to be delivered from 2016 to 2020. Two ATR72-600 were received during 2016 and six ATR-600 during 2017.

On June 6, 2017, CAI placed an order with Airbus S.A.S to purchase seven (7) new A321 CEO Aircraft to be delivered starting 2018.

On June 14, 2018, CAI has entered into an Aircraft Conversion Services Agreement with IPR Conversions (Switzerland) Limited to convert two (2) ATR 72-500 aircraft from passenger to freighter. The first converted ATR 72-500 freighter aircraft was delivered in August 2019 while the second will be delivered within 2020.

On July 26, 2018, CAI entered into operating lease agreements with Avolon Aerospace Leasing Limited for five (5) Airbus A320NEO aircraft, four of which were delivered on various dates within 2019.

On October 31, 2019, CAI placed an order with Airbus S.A.S to purchase sixteen (16) Airbus A330 NEO aircraft. Consequently, on November 29, 2019, the Parent Company entered into agreements with Rolls-Royce PLC for the purchase of spare Trent 7000 engines and for the provision of TotalCare life services and other services required in connection with the sixteen (16) A330NEO aircraft.

On December 19, 2019, CAI placed an additional order with Airbus S.A.S for fifteen (15) A320NEO family aircraft which includes up to ten (10) A321XLR.

As of December 31, 2019, the Group is set to take delivery of twenty-seven (27) Airbus A321 NEO, one (1) A320 NEO, three (3) ATR 72-600, one (1) ATR 72-500 freighter, , sixteen (16) A330 NEOs, and fifteen (15) A320NEO family aircraft from 2020 until 2026.

The above-indicated commitments relate to CAI's re-fleeting and expansion programs. These agreements remained in effect as of December 31, 2019.

#### *Service Maintenance Commitments*

On June 21, 2012, CAI has entered into a 10-year charge per aircraft landing (CPAL) agreement with Messier-Bulgatti-Dowty (Safran Group) to purchase wheels and brakes for its fleet of Airbus A319 and A320 aircraft. The contract covers the current fleet, as well as future aircraft to be acquired.

On June 22, 2012, CAI has entered into service contract with Rolls-Royce Total Care Services Limited (Rolls-Royce) for service support for the engines of the A330 aircraft. Rolls-Royce will provide long-term Total Care service support for the Trent 700 engines on up to eight A330 aircraft. Contract term shall be from delivery of the first A330 until the redelivery of the last A330.

On March 28, 2017, the CAI entered into a maintenance service contract with Societe Air France for the lease, repair and overhaul services of parts and components of its A319, A320 and A321 aircraft. These services include provision of access to inventories under lease basis, access to pooled components on a flat rate basis and repairs of aircraft parts and components.

#### URC

##### *Milling Contracts*

Milling contracts with various planters provide for a 60%-70% share to the planters (including related parties) and 30%-40% share to the Group of sugar and molasses produced from sugar canes milled. The Sugar Industry Development Act of 2015 provides that, to ensure the immediate payment of farmers and secure their income from sugarcane, farmers may enter into any payment method with the sugar mill.

##### *Sugar under Custody but Not Owned*

As of December 31, 2019 and 2018, the Group has in its custody sugar owned by several quedan holders with volume of 502,903 Lkg and 502,051 Lkg, respectively. The said volume of sugar is not reflected in the statement of financial position since this is not owned by the Group. The Group is accountable to both quedan holders and sugar traders for the value of these trusted sugar or their sales proceeds.

### Off-Balance Sheet Items

In the normal course of RBC and LSB's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying consolidated financial statements. The subsidiary bank does not anticipate material unreserved losses as a result of these transactions.

Following is a summary of RBC and LSB's commitments and contingent liabilities at their equivalent peso contractual amounts:

|                                     | <b>2019</b>            | 2018            |
|-------------------------------------|------------------------|-----------------|
| Trust and investment group accounts | <b>₱17,739,157,589</b> | ₱17,500,291,971 |
| Spot exchange - foreign currency    | <b>2,654,047,816</b>   | 4,857,697,000   |
| Committed credit lines              | <b>7,258,540,906</b>   | 3,858,396,377   |
| Guarantees issued                   | <b>3,207,412,389</b>   | 1,957,917,773   |
| Inward bills for collection         | <b>984,396,933</b>     | 1,144,692,773   |
| Outward bills for collection        | –                      | 529,964,368     |
| Domestic standby letters of credit  | <b>328,561,049</b>     | 382,180,629     |
| Contingent - foreign currency swap  | <b>1,284,358,910</b>   | 290,189,057     |
| Late deposit/payment received       | <b>93,764,025</b>      | 77,016,740      |
| Items held for safekeeping          | <b>79,472</b>          | 54,874          |
| Other contingent account            | <b>183,907</b>         | 181,357         |

### Contingencies

The Group has various contingent liabilities arising in the ordinary conduct of business from legal proceedings which are either pending decision by the courts, under arbitration or being contested, the outcomes of which are not presently determinable. In the opinion of management and its legal counsels, the eventual liability under these lawsuits or claims, if any, will not have a material or adverse effect on the Group's financial position and results of operations. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed on the ground that it can be expected to prejudice the outcome of these lawsuits, claims, arbitration and assessments.

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## 44. Business Combination

### *Acquisition of Yarra Valley*

In July 2019, Intersnack, a European enterprise engaged in the savory snacks market with an extensive product portfolio, agreed to buy 40% of Oceania business (SBA and Griffin's) to leverage on the Group's and Intersnack's know-how from their respective markets. This transaction is expected to yield better manufacturing, supply chain and sustainability practices and will set the groundwork for an even larger and more efficient Oceania operations. Considerations received for the transaction consisted of cash and Yarra Valley net assets amounting to US\$142.0 million (₱7.2 billion) and US\$10.1 (₱0.5 billion), respectively.

On December 23, 2019, the Australian FIRB approved the transaction.

As a result of the sale, the equity interest of URC changed from 100.0% to 60.0%. The excess of the total consideration received over the carrying amount of the equity transferred and call option issued to NCI amounting to ₱1.3 billion is presented under "Equity reserve" in the consolidated statements of financial position.

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#### 45. Subsequent Events

In a move to contain the COVID-19 outbreak in the country, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum on Stringent Social Distancing Measures and Further Guidelines for the Management of the COVID-19 Situation which placed the National Capital Region (NCR) under these measures beginning March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. On March 24, 2020, Republic Act No. 11469 was enacted declaring the existence of a national emergency arising from the COVID-19 situation and a national policy in connection therewith, and authorizing the Philippine President for a limited period and subject to restrictions, to exercise powers necessary and proper to carry out the declared national policy and for other purposes. On April 1, 2020, the Implementing Rules and Regulations (IRR) of Section 4(aa) of Republic Act No. 11469, otherwise known as the “Bayanihan to Heal As One Act” was released. On April 7, 2020, the Philippine President announced that the ECQ throughout the island of Luzon has been extended up to April 30, 2020.

The Group has ensured that it fully complies with all the government-mandated measures to contain the COVID-19 outbreak in the country. These however have caused disruptions to certain areas of the Group’s diverse portfolio of businesses and economic activities as follows:

- Travel restrictions imposed by the Philippine government and other countries have resulted to significant reduction in air travel demand for the Air transportation segment;
- The Real estate and hotels segment has temporarily closed down some of its commercial properties and suspended the construction of its residential properties. Only essential business establishments within its malls such such as supermarkets, pharmacies and banks remain open for limited operating hours;
- The Foods, agro-industrial and commodities businesses’ selling operations remain open and currently has sufficient inventory that enables it to operate its business at normal levels across different geographic locations where it has facilities, in both domestic and international markets. But as the situation continues to evolve, the segment nevertheless remains vigilant on the potential impact of the outbreak on its supply chain and consumer demand;
- Identified as an essential business establishment under the government’s ECQ guidelines, the Banking segment has ensured continued operations and uninterrupted services to provide the financial requirements of its clients as well as to support the entire financial system; and
- The Petrochemicals plants continue to operate and deliveries to customers are unhampered to ensure that necessary raw materials are available for the nation’s supply chain.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the effect to its financial position, performance and cash flows. Nevertheless, the Group has implemented several austerity measures to mitigate the impact of this outbreak to the Group’s businesses. In particular, the Group has undertaken the following:

- For its Real estate and hotels, Foods, agro-industrial and commodities, Banking and Petrochemicals segments which are, or a part or parts thereof, considered essential business establishments in accordance with the government’s ECQ guidelines, a skeletal work force and rotation schedules for highly critical functions and activities have been employed. To supplement this, various precautionary measures were also implemented such as strict adherence to personal hygiene

practices, mandatory temperature checks and social distancing protocols, and proper and frequent sanitation and deep disinfection of plant premises, offices, branches and supermarkets.

- For the other employees of the Group, work-from-home arrangements, job reassignment and other flexible personnel resourcing measures have been implemented.
- For its Air transportation segment, prior to the suspension of all flights beginning March 19, 2020, lost capacity due to cancellation of international flights have been redeployed into the domestic network. In addition, various cost saving and cash preservation initiatives were undertaken.
- The Banking segment opens as many branches feasible, ensures cash availability in ATMs, maintains availability of various digital and online products, and has provided its customers 30-day grace period for loan payments.

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#### 46. Supplemental Disclosures to Cash Flow Statements

Changes in liabilities arising from financing activities in 2019 follow:

|                  | January 1, 2019  | Cash Flows      | Foreign Exchange Movement | Currency Translation Adjustment | Others*      | December 31, 2019 |
|------------------|------------------|-----------------|---------------------------|---------------------------------|--------------|-------------------|
| Short-term debts | ₱35,453,723,993  | ₱18,822,267,467 | (₱286,995,206)            | ₱58,413,750                     | ₱-           | ₱54,047,410,004   |
| Long-term debts  | 210,248,967,348  | 11,920,449,077  | (2,276,354,595)           | (1,171,744,302)                 | 214,217,179  | 218,935,534,707   |
|                  | ₱245,702,691,341 | ₱30,742,716,544 | (₱2,563,349,801)          | (₱1,113,330,552)                | ₱214,217,179 | ₱272,982,944,711  |

\*Others consist of amortization of bond issue cost.

The principal noncash activities of the Group are as follows:

- Movements in the cumulative translation adjustment amounted to ₱1.2 billion, ₱1.5 billion and (₱1.2 billion) in 2019, 2018 and 2017, respectively.
- In 2019, 2018 and 2017, the Group foreclosed some assets, which are recorded under 'Investment properties' in the consolidated statements of financial position, amounting to ₱62.0 million, ₱111.8 million and ₱85.5 million, respectively.
- In 2018, the Group acquired additional investment in UICL through the scrip dividend scheme in lieu of cash dividends amounting to ₱560.4 million.
- Acquisition of aircraft through loan financing amounted to ₱16.8 billion and ₱3.8 billion in 2018 and 2017, respectively.

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#### 47. Approval for the Release of the Consolidated Financial Statements

The accompanying consolidated financial statements of the Group were approved and authorized for issue by the BOD on April 13, 2020.

