

# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

### QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended  
Sep 30, 2020
2. SEC Identification Number  
184044
3. BIR Tax Identification No.  
000-775-860
4. Exact name of issuer as specified in its charter  
JG SUMMIT HOLDINGS, INC.
5. Province, country or other jurisdiction of incorporation or organization  
Pasig, Philippines
6. Industry Classification Code(SEC Use Only)
7. Address of principal office  
43rd Floor, Robinsons Equitable Tower, ADB Avenue corner Poveda Street, Ortigas  
Center, Pasig City, Metro Manila  
Postal Code  
1605
8. Issuer's telephone number, including area code  
(632) 8633-7631
9. Former name or former address, and former fiscal year, if changed since last report  
NOT APPLICABLE
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Sections 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	7,162,841,657
Long-term debt	5,489,470,000

11. Are any or all of registrant's securities listed on a Stock Exchange?  
 Yes            No  
 If yes, state the name of such stock exchange and the classes of securities listed therein:  
 Philippine Stock Exchange; Common Stock
12. Indicate by check mark whether the registrant:

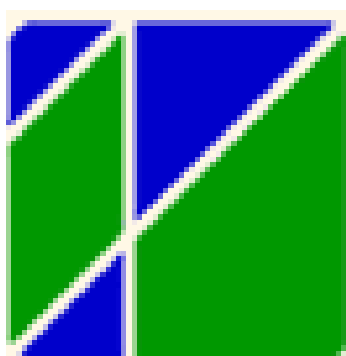
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports)

Yes            No

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

Yes            No

*The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.*



**JG Summit Holdings, Inc.**  
**JGS**

**PSE Disclosure Form 17-2 - Quarterly Report**  
**References: SRC Rule 17 and**  
**Sections 17.2 and 17.8 of the Revised Disclosure Rules**

<b>For the period ended</b>	Sep 30, 2020
<b>Currency (indicate units, if applicable)</b>	In Php (in thousands)

**Balance Sheet**

	Period Ended	Fiscal Year Ended (Audited)
	Sep 30, 2020	Dec 31, 2019
<b>Current Assets</b>	257,668,744	234,155,679
<b>Total Assets</b>	979,203,016	928,309,518
<b>Current Liabilities</b>	257,331,218	245,138,942
<b>Total Liabilities</b>	567,887,514	519,662,376
<b>Retained Earnings/(Deficit)</b>	265,359,562	267,972,795
<b>Stockholders' Equity</b>	411,315,502	408,647,142

<b>Stockholders' Equity - Parent</b>	310,238,226	304,811,642
<b>Book Value per Share</b>	43.31	42.55

#### Income Statement

	<b>Current Year (3 Months)</b>	<b>Previous Year (3 Months)</b>	<b>Current Year-To-Date</b>	<b>Previous Year-To-Date</b>
<b>Gross Revenue</b>	50,743,323	71,972,181	167,263,548	230,409,879
<b>Gross Expense</b>	48,828,778	61,644,540	156,695,107	189,232,979
<b>Non-Operating Income</b>	1,653,355	457,996	2,745,703	2,399,130
<b>Non-Operating Expense</b>	2,615,932	4,247,085	9,749,107	9,706,304
<b>Income/(Loss) Before Tax</b>	951,968	6,538,552	3,565,037	33,869,726
<b>Income Tax Expense</b>	496,441	1,002,641	2,200,679	4,551,048
<b>Net Income/(Loss) After Tax</b>	455,527	5,535,911	1,364,358	29,318,678
<b>Net Income Attributable to Parent Equity Holder</b>	844,100	3,677,810	123,847	21,073,533
<b>Earnings/(Loss) Per Share (Basic)</b>	0.12	0.51	0.02	2.94
<b>Earnings/(Loss) Per Share (Diluted)</b>	0.12	0.51	0.02	2.94

	<b>Current Year (Trailing 12 months)</b>	<b>Previous Year (Trailing 12 months)</b>
<b>Earnings/(Loss) Per Share (Basic)</b>	0.02	2.94
<b>Earnings/(Loss) Per Share (Diluted)</b>	0.02	2.94

<b>Other Relevant Information</b>
None

#### Filed on behalf by:

<b>Name</b>	Michele Abellanosa
<b>Designation</b>	Vice President - Corporate Controller



JG SUMMIT HOLDINGS, INC.

November 12, 2020

## **CERTIFICATION**

Securities and Exchange Commission  
Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City

I, **FRANCISCO M. DEL MUNDO**, Senior Vice President – Chief Financial Officer, is a duly authorized representative of **JG Summit Holdings, Inc.** with SEC registration 184044 with principal office address at 43<sup>rd</sup> floor Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City, Philippines, do hereby certify that:

JG Summit Holdings, Inc. will comply with the guidelines for the alternative filing of reports and/or documents online with the Securities and Exchange Commission in light with imposition of an Enhanced Community Quarantine and Stringent Social Distancing Measures over Luzon to prevent the spread of the 2019 Coronavirus Disease (COVID-2019).

The information contained in 2020 SEC Form 17-Q (Quarterly Report) with attached unaudited consolidated financial statements for the period ended September 30, 2020, submitted on November 12, 2020 online is true and correct to the best of my knowledge.

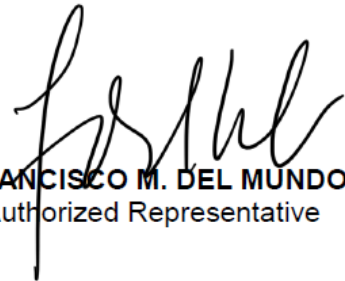
On behalf of JG Summit Holdings, Inc. I hereby undertake to (1) submit hard or physical copies of 2020 SEC Form 17-Q (Quarterly Report) with proper notarization and certification; (2) pay the filing fees (where applicable); (3) pay the penalties due (where applicable) and (4) other impositions (where applicable), within ten (10) calendar days from the date of the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours.



JG SUMMIT HOLDINGS, INC.

I am fully aware that non-submission of hard/physical copies of reports as well as certification that they refer to one and the same document submitted online, within ten (10) calendar days from the lifting of the Enhanced Community Quarantine period and resumption of SEC's normal working hours, shall invalidate the reports, applications, compliance, requests and other documents submitted via email. Hence, the corresponding penalties under existing rules and regulations of the Commission shall apply without prejudice to the imposition of penalties under Section 54 of the Securities Regulation Code and other applicable existing rules and regulations for failure to comply with the orders of the Commission.

I am executing this certification on November 12, 2020 to attest to the truthfulness of the foregoing facts and for whatever legal purpose it may serve.



**FRANCISCO M. DEL MUNDO**  
Authorized Representative



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2020
2. SEC Identification Number 184044
3. BIR Tax Identification No. 000-775-860
4. Exact name of registrant as specified in its charter JG Summit Holdings, Inc.
5. Pasig City, Philippines  
Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. 43<sup>rd</sup> Floor, Robinsons-Equitable Tower ADB Ave. corner Poveda Road, Pasig City 1600  
Address of principal office Postal Code
8. (632) 633-7631  
Registrant's telephone number, including area code
9. Not Applicable  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the RSC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common Stock</b>	<b>7,162,841,657</b>
<b>Long-term Debt</b>	<b>5,489,470,000</b>

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

Yes [ / ]      No [ ]

If yes, state the name of such stock exchange and the classes of securities listed herein:

Philippine Stock Exchange  
Common Stock

12. Check whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes [ / ]      No [ ]

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

Yes [ / ]      No [ ]

## **PART I - BUSINESS AND GENERAL INFORMATION**

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

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

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

Effective 2020, United Industrial Corporation Limited (UIC), a Singapore-listed associate of the Group, is only required to file financial reports semi-annually instead of quarterly in accordance with the new rules of the Singapore Stock Exchange (SGX). The recent changes in the SGX rules resulted to a change in reporting of the JG Group financial performance whereby the financial results of UIC are not included in the quarterly report and that UIC results will be included in the semi-annual financial report of the JG Group.

#### **Results of Operations**

##### **JG Summit's Profitability Returns to Positive Territory in 3Q20**

As the Philippine economy progressively opens up amidst the lingering threat of the COVID-19 pandemic, strategic pivots employed by the Gokongwei-led JG Summit Holdings, Inc. (JGS) begin to bear fruit with the substantial quarter-on-quarter (QoQ) recovery in the conglomerate's profitability.

Consolidated net income in the 3rd quarter of 2020 (3Q20) registered at ₱844 million, a significant turnaround from the reported ₱720 million loss in the first six months of 2020. Improving contributions from petrochemicals and real estate coupled with reduced losses from air transport drove the QoQ recovery and brought JGS' net income for the nine months ending September 30, 2020 (9M20) to ₱124 million. Higher margins from food and banking also boosted earnings. Excluding the impact of foreign exchange gain and market valuation losses, as well as the non-recurring impairment loss recognized by its power affiliate, JGS' core net income after taxes reached ₱1.2 billion in 9M20.

The group's operations remain to be challenged by the COVID-19 disruption. Nonetheless, the resilient topline performance of JGS' food, banking and office business segments continue to temper the year-on-year (YoY) decline in its airline, malls, hotels and petrochemical revenues in 9M20. In 3Q20, this was further alleviated by improving petrochemical utilization rates and sales volumes, the gradual resumption of domestic and international flights, as well as increasing operational gross leasable space in malls. All in all, JGS closed 9M20 with consolidated revenues of ₱167.3 billion, 27% lower vs the same period last year (SPLY).

Consolidated cost of sales and services for the nine months of 2020 decreased by 23% from ₱146.31 billion last year to ₱113.10 billion this year consistent with the decline in revenue of core businesses.

The Group's operating expenses increased by 2% from ₱42.93 billion last year to ₱43.60 billion in the same period this year due to slightly higher selling, general and administrative expenses. As a result, Consolidated Operating Income or EBIT amounted to ₱10.57 billion for the nine months of 2020, a 74% decrease from ₱41.18 billion SPLY. EBITDA amounted to ₱34.03 billion versus ₱63.31 billion SPLY.



The Group's financing costs and other charges, net of interest income, decreased by 13% to ₱6.25 billion this year from last year's ₱6.80 billion primarily due to increase in capitalized borrowing costs of Petrochem, and to lower interest rates and level of the Group's short-term debts.

Market valuation losses recognized from financial assets and derivative instruments for the nine months of 2020 amounted to ₱2.45 billion from a market valuation gain of ₱761 million for the same period last year attributable to the decline in market values of the Group's financial assets at FVTPL resulting from the impact of COVID-19 on capital markets, and the hedging loss incurred by Cebu Pacific due to the discontinuation of hedge accounting application on non-effective hedges in 2020.

The Group recognized a net foreign exchange gain of ₱1.80 billion in 2020 from ₱954 million foreign exchange loss in 2019 driven by the appreciation of Philippine peso vs U.S. dollar in respect to our dollar-denominated long-term debt.

Other income (expense) - net account, which represents miscellaneous income and expenses, amounted to a loss of ₱104 million for the nine months of 2020 from ₱318 million in the same period last year, due to loss on sale of aircraft incurred by Cebu Pacific in 2019.

Provision for income tax decreased by 52% to ₱2.20 billion for the nine months of 2020 mainly due to the benefit from deferred income tax recognized by Cebu Pacific and lower income tax of RLC.

## **FOOD**

**Universal Robina Corporation (URC)** generated a consolidated sale of goods and services of ₱99.77 billion for the nine months ended September 30, 2020, at par with same period last year. Sale of goods and services performance by business segment follows: (1) URC's branded consumer foods (BCF) segment, excluding packaging division, decreased by ₱1.76 billion or 2.2% to ₱76.57 billion for the nine months of 2020 from ₱78.33 billion registered in the same period last year. BCFG domestic operations posted an increase in net sales from ₱46.20 billion for the nine months of 2019 to ₱46.54 billion for the nine months of 2020 due to growth in snacks, bakery, chocolates, noodles and coffee, which were offset by declines in RTD beverages and candies. BCF international operations reported a 6.5% decrease in net sales from ₱32.13 billion for the nine months of 2019 to ₱30.04 billion for the nine months of 2020, with significant impact from forex devaluations particularly in Oceania. In constant US dollar (US\$) terms, sales slightly decreased by 0.7% with mixed results from major markets. Vietnam sales significantly declined by 18.8% due to reduced out-of-home consumption but C2 market shares experienced significant uplift, driven by new products and modern trade channel. Thailand sales decreased by 4.1% due to soft domestic consumption, especially in large format stores. Oceania sales grew by 8.3% due to better product supply and availability in Australia and the good momentum in biscuits and better trade execution in New Zealand. Sale of goods and services in URC's packaging division decreased by 14.6% to ₱860 million for the nine months of 2020 from ₱1.01 billion recorded in the same period last year due to weaker volumes. (2) Agro-Industrial group (AIG) amounted to ₱9.22 billion for the nine months of 2020, a decline of 7.4% from ₱9.96 billion recorded in the same period last year. Feeds business slightly decreased by 0.4% and Farms business decreased by 22.8% due to lower volumes as a result of downsized operations. (3) Sale of goods and services in commodity foods group (CFG) amounted to ₱13.12 billion for the nine months of 2020, a 25.1% increase from ₱10.48 billion reported in the same period last year. Sugar business grew by 38.7% due to higher volumes while renewables business grew by 5.6%. Flour business posted an 11.2% increase due to strong volumes.

URC's cost of sales consists primarily of raw and packaging materials costs, manufacturing costs and direct labor costs. Cost of sales decreased by ₱1.0 billion or 1.4%, to ₱69.16 billion for the nine months of 2020 from ₱70.16 billion recorded in the same period last year.

URC's gross profit for the first half of 2020 amounted to ₱30.61 billion, up by ₱990 million or 3.3% from ₱29.62 billion reported in the same period last year. Gross profit margin increased by 100 basis points from 29.7% for the nine months of 2019 to 30.7% for the nine months of 2020.

URC's selling and distribution costs, and general and administrative expenses consist primarily of compensation benefits, advertising and promotion costs, freight and other selling expenses, depreciation, repairs and maintenance expenses and other administrative expenses. Selling and distribution costs, and general and administrative expenses slightly increased by 0.6% or ₱111 million to ₱18.70 billion for the nine months of 2020 from ₱18.59 billion registered in the same period last year.

As a result of the above factors, operating income increased by 8.0% or ₱879 million to ₱11.91 billion for the nine months of 2020 from ₱11.03 billion reported for the nine months of 2019.

Net foreign exchange loss amounted to ₱699 million for the nine months of 2020 from ₱1.098 billion in the same period last year mainly driven by appreciation of Myanmar Kyat and Thailand Baht vis-à-vis US dollar, offset by appreciation of Philippine Peso and depreciation of Indonesian Rupiah vis-à-vis US dollar.

URC's finance costs consist mainly of interest expense and amortization of debt issue costs. Finance costs decreased by 9.1% to ₱1.12 billion for the nine months of 2020 from ₱1.23 billion in the same period last year due to lower interest rates and level of interest-bearing financial liabilities.

URC's finance revenue consists of interest income from investments in money market placements, savings and dollar deposits and dividend income from investment in equity securities. Finance revenue increased by 10.4% to ₱282 million for the nine months of 2020 from ₱255 million in the same period last year due to higher dividend income during the period.

Equity in net losses of joint ventures increased to ₱42 million for the nine months of 2020 from ₱39 million in the same period last year due to higher net losses of VURCI.

Market valuation gain on financial instruments at fair value through profit or loss decreased to ₱10 million for the nine months of 2020 against ₱32 million in the same period last year due to lower increase in market values of equity investments.

Other income (expense) - net account consists of gain (loss) on sale of fixed assets and investments, rental income, and miscellaneous income and expenses. This account amounted to net other expense of ₱719 million for the nine months of 2020 from ₱205 million for the nine months of 2019 due to hogs restructuring provision recognized during the period.

URC's net income before taxes for the nine months of 2020 amounted to ₱9.62 billion, higher by ₱877 million or 10.0%, from ₱8.75 billion for the nine months of 2019 mainly driven by higher operating income.

URC's core earnings before tax (operating profit after equity earnings, net finance costs and other income - net) for the nine months of 2020 amounted to ₱10.83 billion, an increase of 10.3% from ₱9.82 billion recorded in the same period last year.

Net income attributable to equity holders of the parent increased by ₱501 million or 7.2% to ₱7.50 billion for the nine months of 2020 from ₱7.0 billion for the nine months of 2019 as a result of the factors discussed above.

URC reported an EBITDA (operating income plus depreciation and amortization) ₱17.42 billion for the nine months of 2020, 5.3% higher than ₱16.55 billion posted for the nine months of 2019.

## **REAL ESTATE AND HOTELS**

**Robinsons Land Corporation's (RLC)** consolidated net income attributable to equity holders of the parent for the period ended September 30, 2020 amounted to ₱4.40 billion, a decline from last year's ₱6.35 billion. From exhibiting the effects brought upon by the pandemic in the second quarter, RLC reported a strong QoQ recovery in net income to ₱717 million in 3Q20. This reflects the improved performance of the malls, hotels and residential businesses, albeit not yet at pre-COVID levels; and on-going resiliency of the office and warehouse leasing portfolios. Furthermore, all business units continued to register positive earnings before interest, taxes, depreciation and amortization (EBITDA).

Total revenues for the nine months of the year amounted to ₱19.67 billion. The Commercial Centers Division which accounted for 24% or ₱4.80 billion of RLC's gross revenues, dropped by 51%. The decrease was due to the temporary closure of the malls except those areas that are occupied by tenants providing essential services such as the supermarkets, banks, pharmacies and spaces occupied by BPOs. RLC also temporarily suspended cinema operations, waived rents for non-operational tenants and granted rental discounts during the implementation of community quarantine. RLC's Residential Division contributed 49% or ₱9.75 billion to RLC's revenues, which was 36% higher from ₱7.15 billion the previous year. This is due to the adoption of a new accounting treatment on revenue recognition wherein it started to recognize revenues using the buyers' equity threshold at 10% from the previous 15%. The Office Buildings Division went into the pandemic very well positioned with high-quality assets, good tenant mix and a strong system-wide occupancy. It continued to deliver sustained financial performance during the period, highlighting the resilience of the portfolio. Accounting for 22% of total RLC's revenues, it recorded a significant 20% hike in its revenues to ₱4.34 billion year-on-year owing to the successful leasing activities for new developments namely Cyberscape Gamma, Zeta Tower, Giga Tower Cybergate Magnolia and Luisita 2; as well as rental escalations in existing office buildings. The Hotels and Resorts Division accounted for 4% or ₱856 million to RLC's revenues. Most of the properties started to re-open as of September 30, 2020. Despite a massive contraction in overall demand and limited operations, the division managed to post revenues of ₱856 million in the first nine months. The Industrial and Integrated Developments Division generated ₱164 million in leasing revenues and ₱85 million in development revenues for the first nine months. The leasing business remains to be a bright spot as it had doubled its revenues year-on-year. On the other hand, development revenues was lower 69% versus same period last year due to the high-base effect of the recognition of the partial gain on sale of land to RLC DMC Property Ventures, Inc. in 2019. Accounting for 1% of total company revenues, IID's combined revenues from its investment and development portfolios fell 30% to ₱249 million.

Real estate costs were up 4% to ₱9.4 billion while hotel expenses dropped 27% to ₱1.04 billion reflecting the muted hotel operations. General and administrative expenses fell 17% to ₱2.62 billion mainly due to lower advertising and promotions, taxes, commission, and insurance, among others. Efforts to streamline operations and manage expenses tempered the decline in EBITDA by 14% to ₱10.8 billion. On the other hand, additional depreciation from properties opened in the second half of last year caused a 22% drag in earnings before interest and taxes (EBIT) to ₱6.9 billion. Interest expense on new loans and unfavorable foreign exchange impact pushed net income down by 31% to ₱4.40 billion compared to the same period last year.

## AIR TRANSPORTATION

**Cebu Air, Inc. (Cebu Pacific)** recorded revenues amounting to ₱19.34 billion for the nine months ended September 30, 2020, 69.6% lower than the ₱63.62 billion revenues generated in the same period last year. The overall decline in revenues was brought about by the impact of the COVID-19 outbreak which started with cancellation of flights to China, Hong Kong, Macau and South Korea in varying periods due to the imposition of travel restrictions. With the rapid escalation of the situation surrounding COVID-19, the Philippine government implemented a community quarantine which then prompted Cebu Pacific to suspend all its scheduled flights beginning March 19, 2020. While some sporadic arrangements for sweeper flights to assist with stranded tourists did occur, for the most part, Cebu Pacific's operations were virtually nil until April when some cargo flights within the Philippines and eventually to countries like Japan, Thailand, China, Hong Kong recommenced. Commercial passenger operations restarted only last June 3 for domestic flights, but in a limited capacity. Subsequently, Cebu Pacific gradually resumed more regular services, however, it is still far behind its normal activity level. The drop in revenues is accounted for as follows: (1) passenger revenues dropped by ₱34.71 billion or 74.5% to ₱11.89 billion for the nine months ended September 30, 2020 from ₱46.60 billion earned in the nine months ended September 30, 2019. Cebu Pacific saw a 71.9% decline in passenger traffic from 16.7 million to 4.7 million driven by lesser number of flights by 66.3% coupled with a 8.7 ppts decrease in seat load factor from 87% to 79%. Lower average fares by 9.2% to ₱2,537 for the nine months ended September 30, 2020 from ₱2,794 for the same period last year also contributed to the reduction of revenues; (2) cargo revenues declined by ₱763 million or 17.7% to ₱3.55 billion for the nine months ended September 30, 2020 from ₱4.32 billion for the nine months ended September 30, 2019 mainly attributable to the decrease in volume transported in 2020 by 55.8% partially offset by a higher yield primarily from chartered cargo services; and (3) ancillary revenues decreased by ₱8.81 billion or 69.3% to ₱3.90 billion for the nine months ended September 30, 2020 from ₱12.71 billion reported in the same period last year primarily due to lesser passenger volume and flight activity during the period.

Cebu Pacific incurred operating expenses of ₱33.06 billion for the nine months ended September 30, 2020, lower by 38.7% than the ₱53.94 billion operating expenses reported for the six months ended June 30, 2019. This was mostly driven by the suspension of Cebu Pacific's operations due to the COVID-19 global pandemic since a material portion of its expenses are based on flights and flight hours. The appreciation of the Philippine peso to an average of ₱50.06 per U.S. dollar for the nine months ended September 30, 2020 from an average of ₱52.06 per U.S. dollar last year based on the Philippine Bloomberg Valuation (PH BVAL) weighted average rates as well as lower fuel prices also contributed to the decrease in operating expenses.

Interest income decreased by ₱399 million or 72.2% to ₱154 million for the nine months ended September 30, 2020 from ₱553 million earned in the same period last year due to the lesser cash in bank and short term placements balance and lower interest rates year on year.

Cebu Pacific incurred a hedging loss of ₱2.17 billion for the nine months ended September 30, 2020, a ₱2.23 billion drop from a hedging gain of ₱67 million for the same period last year mainly due to the discontinuation of hedge accounting application on non-effective hedges in 2020. A net foreign exchange gains of ₱1.33 billion for the nine months ended September 30, 2020 resulted from the appreciation of the Philippine peso against the U.S. dollar. Cebu Pacific's major exposure to foreign exchange rate fluctuations is in respect to U.S. dollar denominated long-term debt incurred in connection with aircraft acquisitions.

Equity in net losses of joint ventures amounted to ₱269 million for the nine months ended September 30, 2020, ₱339 million lower than the ₱70 million equity in net income of joint venture earned in the same period last year. The decrease was caused by the net losses incurred by its joint ventures and associates in 2020.

Interest expense declined by ₱608 million or 26.2% to ₱1.71 billion for the nine months ended September 30, 2020 from ₱2.32 billion for the nine months ended September 30, 2019 due to the sale of two (2) Airbus A320 aircraft sold in the latter part of 2019 and the effect of appreciation of the Philippine Peso against the U.S. Dollar.

In September 2020, Cebu Pacific received ₱807 million pertaining to insurance proceeds claimed for damages sustained by an A320 aircraft during a runway excursion incident at Iloilo International Airport last October 2017.

In September 2020, Cebu Pacific sold and leased back seven (7) engines which resulted to a loss of ₱7 million. In March, August and September 2019, Cebu Pacific sold and delivered three (3) Airbus A320 aircraft to a subsidiary of Allegiant Travel Company (Allegiant) which resulted to a loss of ₱352 million. In August and September 2019, Cebu Pacific also sold and delivered two (2) Airbus A330 engine which resulted to a gain of ₱126 million.

Net loss for the nine months ended September 30, 2020 amounted to ₱14.69 billion, a decrease of 317% from the ₱6.77 billion net income earned in the same period last year.

## **PETROCHEMICALS**

**JG Summit Petrochemicals Group**, which consists of JG Summit Petrochemicals Corporation (JGSPC) and JG Summit Olefins Corporation (JGSOC), reached combined gross revenues of ₱14.5 billion for the nine months ended September 30, 2020. Improving plant utilization rates, rebound in market demand, as well as lower naphtha prices led Petrochem to report positive earnings in 3Q20, a significant improvement from the reported losses in the first two quarters.

3Q20 posted softer YoY revenue decline as the unfavorable petrochemical prices across its segments were offset by higher sales volume due to improving utilization rates. In addition, the local market demand has rebounded especially for essential goods resulting in higher polymer sales for packaging, blow molding, and yarn. Export sales were also strong as more countries open up from lockdowns. Coming from planned facility shutdowns in 1Q and demand challenges in 2Q due to the ECQ, better 3Q sales drove Petrochem's 9M20 revenues to ₱14.5 billion, 45% lower vs SPLY.

Meanwhile, profitability turned positive in 3Q20 with EBITDA and Net Income of ₱1.6 billion and ₱772 million, respectively, on the back of lower naphtha cost used in production. This brought 9M20 numbers to a negative EBITDA of ₱251 million and net loss amounting ₱1.9 billion.

## **BANKING**

**Robinsons Bank Corporation** generated banking revenue of ₱6.9 billion for the nine months of 2020, a 14% increase from last year's ₱6.0 billion on the back of a 14% loan growth which was mostly led by the faster expansion of consumer loans, and trading gains which amounted to ₱896 million.

Despite the higher loan loss provision of ₱770 million in 9M20 due to risks related to the pandemic, the YoY topline growth as well the 52-basis point improvement in net interest margins led to a net income of ₱786 million, a 68% growth vs SPLY.

## **EQUITY EARNINGS**

**Equity in net earnings of associated companies and joint ventures** amounted to ₱4.56 billion for the nine months of 2020, a 56% decrease from ₱10.40 billion for the nine months of 2019 driven by the 40% decline in our equity in net earnings of Meralco from ₱5.25 billion in 2019 to ₱3.16 billion in 2020, as well as the 76% decline in our equity in net earnings of UIC from ₱4.74 billion in 2019 to ₱1.14 billion in 2020.

Meralco recorded net income from operations of ₱11.25 billion this year from ₱18.32 billion same period last year due to lower consolidated electricity revenues on account of lower volumes and pass-through charges, coupled with the recognition of ₱2.66 billion impairment of an equity investment in the first quarter of 2020.

UIC recorded net income from operations of S\$99 million for the six months of 2020, a 71% decrease from last year's S\$347 million primarily due to the S\$210.3 million one-off gain on derecognition of an associated company booked by UIC in the second quarter of 2019. Lower revenues from property trading, property investments and hotel operations due to impact of COVID-19 also contributed to the net income decline. Since the Group's policy for the valuation of property, plant and equipment is the cost basis method, the equity income taken up by the Group represents the adjusted amounts after reversal of the effect in the income statement of the revaluation of the said assets.

Under the recent changes in the SGX-ST Listing Rules, a listed company would only be required to report its financials on a quarterly basis if:

- (1) it has received a disclaimer of opinion, adverse opinion or qualified opinion from its auditors on its latest financial statement; or
- (2) its auditors have expressed a material uncertainty relating to going concern on its latest financial statements; or
- (3) SGX RegCo has regulatory concerns with the listed company (e.g. where there have been material disclosure breaches or where the listed company faces issues that have material financial impact).

As UIC is not a company which falls within any of the categories listed above, it is therefore no longer required under the SGX-ST Listing Rules to release its financial statements on a quarterly basis. Accordingly, JG Summit Group will only present UIC results on its semi-annual financial statements. To align with the current year's presentation, the Group has restated the comparative accounts and excluded equity in net earnings of UIC for the quarter ended September 30, 2019.

## **FINANCIAL RESOURCES AND LIQUIDITY**

### **September 30, 2020 vs December 31, 2019**

As of June 30, 2020, the Group's balance sheet remains healthy, with consolidated assets of ₱979.21 billion from ₱928.31 billion as of December 31, 2019. Current ratio stood at 1.00. The Group's indebtedness remained manageable with a gearing ratio of 0.76 and net debt to equity of 0.56 as of September 30, 2020.

Cash and cash equivalents increased to ₱83.60 billion as of September 30, 2020 from ₱64.34 billion as of December 31, 2019. Cash provided by operating activities amounted to ₱3.50 billion. As of September 30, 2020, net cash used in investing activities amounted to ₱29.36 billion mainly for the Group's capital expenditure program. The Group's net cash provided by financing activities amounted to ₱45.12 billion primarily due to the proceeds from bond issuances in the third quarter of 2020, net of short-term debt settlements. Our financial assets, including those held at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI), and investment securities at amortized cost amounted to ₱73.59 billion, an increase of 19% from ₱62.05 billion as of December 31, 2019.

Contract assets (current and noncurrent) totaling ₱15.13 billion as of September 30, 2020, a 39% increase from ₱10.85 billion as of December 31, 2019, refer to RLC's right to consideration in exchange for goods or services transferred to the customers based on percentage of completion.

Biological assets, including noncurrent portion, decreased by 65% due to decline in hogs population.

Other noncurrent assets went up by 6% from ₱13.40 billion as of December 31, 2019 to ₱14.20 billion as of September 30, 2020 mainly due to CEB's increase in deferred tax assets.

Short term debt decreased 24% to ₱41.20 billion as of September 30, 2020 from ₱54.05 billion as of December 31, 2019 mainly due to settlements made by JG and RLC coming from the proceeds of bond issuances.

Other current liabilities amounted to ₱15.84 billion as of September 30, 2020, a 28% decline from ₱21.99 billion as of December 31, 2019 primarily due to CEB's lower unearned transportation revenue on forward bookings driven by weak travel demand brought about by the COVID-19 global pandemic.

Contract liabilities (current and noncurrent) totaling ₱27.41 billion as of September 30, 2020, a 60% increase from ₱17.14 billion as of December 31, 2019, 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 goods and services transferred based on percentage of completion.

Other noncurrent liabilities increased to ₱40.27 billion as of September 30, 2020 from ₱35.80 billion as of December 31, 2019 due to higher deposit liabilities of the banking business.

Long-term debt, including current portion, increased 23% from ₱218.94 billion as of December 31, 2019 to ₱270.25 billion as of September 30, 2020 primarily as a result of the additional term loans availed by PET and bond issuances of RLC and the Parent Company during the period.

Income tax payable decreased 49% mainly due to income tax payments made during the period, net of current tax provision.

Stockholders' equity, excluding minority interest, stood at ₱310.24 billion as of September 30, 2020 from ₱304.81 billion as of December 31, 2019. Book value per share amounted to ₱43.31 as of September 30, 2020.

## KEY FINANCIAL INDICATORS

The Company sets certain performance measures to gauge its operating performance periodically and to assess its overall state of corporate health. Listed below are the major performance measures, which the Company has identified as reliable performance indicators. Analyses are employed by comparisons and measurements on a consolidated basis based on the financial information of the current period against last year.

Key Financial Indicators	Nine Months Ended September 30	
	2020	2019
Revenues	₱167,264 million	₱230,410 million
EBIT	₱10,568 million	₱41,177 million
EBITDA	₱34,032 million	₱63,314 million
Core net income after taxes	₱1,207 million	₱18,314 million
Net income (loss) attributable to equity holders of the Parent Company	₱124 million	₱21,074 million
Profitability ratio:		
Operating margin	0.06	0.18
Leverage:		
Interest rate coverage ratio	4.73	7.51

	September 30, 2020	December 31, 2019
Liquidity Ratio:		
Current ratio	1.00	0.96
Solvency ratios:		
Gearing ratio	0.76	0.67
Net debt to equity ratio	0.56	0.52
Asset-to-equity ratio	2.38	2.27
Book value per share	₱43.31	₱42.55

The manner in which the Company calculates the above key performance indicators is as follows:

Key Financial Indicators		
Revenues	=	Total of sales and services, income from banking business, dividend income and equity in net earnings
EBIT	=	Operating income
EBITDA	=	Operating income add back depreciation and amortization expense
Core net income after taxes	=	Net income attributable to equity holders of Parent Company as adjusted for the net effect of gains/losses on foreign exchange, market valuations and derivative transactions
Current ratio	=	Total current assets over current liabilities
Gearing ratio	=	Total financial debt over total equity
Net debt to equity ratio	=	Total financial debt less cash including financial assets at FTVPL and FVOCI (excluding RBC cash, financial assets at FTVPL and FVOCI) over total equity
Asset-to-equity ratio	=	Total assets over total equity
Interest rate coverage ratio	=	EBITDA over interest expense
Operating Margin	=	Operating income over revenue
Book value per share	=	Stockholders' equity (equity attributable to parent excluding preferred shares) over outstanding number of common shares



- 2.1 Any known trends or any known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.

The Company does not expect any liquidity problems and is not in default of any financial obligations.

- 2.2 Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:

None

- 2.3 Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period:

The Company, in the normal course of business, makes various commitments and has certain contingent liabilities that are not reflected in the accompanying consolidated financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit, standby letters of credit for the purchase of equipment, tax assessments and bank guarantees through its subsidiary bank. The Company does not anticipate any material losses as a result of these transactions.

- 2.4 Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

### ***Impact of COVID-19 Outbreak on the Group's Operations***

The Group is actively engaged in planning and executing various measures to mitigate the impact of the COVID-19 global pandemic on its business operations. These include negotiations with key suppliers on capital expenditure commitments and related cash flows, as well as with other suppliers and stakeholders as they impact the Group's cash flows. It is further engaged in the planning staff right-sizing in addition to further optimization and digitalization of processes.

The Group is fully committed to cooperate and support the Philippine government's efforts to control the spread of the virus. In addition to complying with the guidelines, rules and regulations that the Philippine government has laid out, the Group has rolled out robust plans to ascertain business continuity and have taken immediate actions to ensure that the Group's services remain available to its customers. Skeleton workforces have been deployed in various geographic locations where the Group operates and contingency measures such as flexible personnel resourcing and off-site working facilities have been employed.

As of September 30, 2020, the Group anticipates that the COVID-19 crisis would have a material impact on its net sales, revenues, income from operations and future performance. The Group remains in a strong balance sheet and equity position at the end of the period and believes that it remains resilient despite the adverse impact of the COVID-19 outbreak.

Refer to Note 26 of the Consolidated Financial Statements attached to this report.

The Company's and its subsidiaries' performance will at all times be affected by the economic performance of the Philippines and other countries where its subsidiaries operate. Hence, the Group is always on guard and establishes controls to minimize such risks.

- 2.5. Any significant elements of income or loss that did not arise from the issuer's continuing operations.  
None
- 2.6. Any seasonal aspects that had a material effect on the financial condition or results of operations.  
None

**PART II – OTHER INFORMATION**

Item 1. List of disclosure not made under SEC Form 17 - C.

None.

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**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**JG SUMMIT HOLDINGS, INC.**

By:

  
\_\_\_\_\_  
**JAMES L. GO**  
Chairman of the Board

  
\_\_\_\_\_  
**LANCELO Y. GOKONGWEI**  
President and  
Chief Executive Officer

  
\_\_\_\_\_  
**FRANCISCO M. DEL MUNDO**  
Senior Vice President and  
Chief Financial Officer

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

(In Thousands)

	September 30, 2020	December 31, 2019
	(Unaudited)	(Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	<b>₱83,599,924</b>	₱64,343,249
Financial assets at fair value through profit or loss (Note 9)	<b>5,421,048</b>	4,384,645
Financial assets at fair value through other comprehensive income (Note 10)	<b>27,135,070</b>	22,259,890
Receivables (Note 11)	<b>42,133,042</b>	47,712,910
Inventories (Note 12)	<b>72,022,612</b>	68,513,876
Biological assets	<b>188,546</b>	733,436
Contract assets	<b>4,191,778</b>	3,007,039
Other current assets (Note 13)	<b>22,976,724</b>	23,200,634
Total Current Assets	<b>257,668,744</b>	234,155,679
<b>Noncurrent Assets</b>		
Financial assets at fair value through other comprehensive income (Note 10)	<b>32,670,837</b>	24,050,347
Receivables (Note 11)	<b>71,440,479</b>	60,913,548
Investment securities at amortized cost (Note 10)	<b>8,361,757</b>	11,357,261
Investments in associates and joint ventures (Note 14)	<b>149,775,010</b>	151,691,573
Property, plant and equipment	<b>265,676,897</b>	259,242,817
Investment properties	<b>101,707,375</b>	99,000,246
Right-of-use assets	<b>20,420,924</b>	20,531,421
Contract assets	<b>10,933,242</b>	7,843,135
Goodwill	<b>32,005,604</b>	32,005,604
Intangible assets	<b>14,200,297</b>	13,898,390
Biological assets	<b>145,848</b>	224,128
Other noncurrent assets (Note 15)	<b>14,196,002</b>	13,395,369
Total Noncurrent Assets	<b>721,534,272</b>	694,153,839
Total Assets	<b>₱979,203,016</b>	₱928,309,518
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 16)	<b>₱147,483,109</b>	₱146,327,372
Short-term debts (Note 18)	<b>41,196,596</b>	54,047,410
Current portion of long-term debts (Note 18)	<b>35,487,973</b>	6,819,094
Contract liabilities	<b>16,427,612</b>	14,184,664
Income tax payable	<b>896,335</b>	1,771,271
Other current liabilities (Note 17)	<b>15,839,593</b>	21,989,131
Total Current Liabilities	<b>257,331,218</b>	245,138,942

	September 30, 2020	December 31, 2019
	(Unaudited)	(Audited)
<b>Noncurrent Liabilities</b>		
Long-term debts - net of current portion (Note 18)	<b>₱234,764,442</b>	₱212,116,441
Deferred tax liabilities	<b>8,311,054</b>	8,318,082
Contract liabilities	<b>10,985,867</b>	2,958,482
Other noncurrent liabilities (Note 19)	<b>56,494,933</b>	51,130,429
Total Noncurrent Liabilities	<b>310,556,296</b>	274,523,434
Total Liabilities	<b>567,887,514</b>	519,662,376
<b>Equity</b>		
Equity attributable to equity holders of the Parent Company:		
Paid-up capital (Note 20)	<b>30,755,867</b>	30,755,867
Retained earnings (Note 20)	<b>265,359,562</b>	267,972,795
Equity reserve (Note 20)	<b>30,870,429</b>	30,870,149
Other comprehensive loss	<b>(16,747,632)</b>	(24,787,169)
	<b>310,238,226</b>	304,811,642
Non-controlling interests	<b>101,077,276</b>	103,835,500
Total Equity	<b>411,315,502</b>	408,647,142
	<b>₱979,203,016</b>	₱928,309,518

*See accompanying Notes to Consolidated Financial Statements.*

## JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES

### UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands Except Per Share Amounts)

	Quarters Ended		Nine Months Ended	
	2020	2019	2020	2019
		(As Restated)		(As Restated)
<b>REVENUE</b>				
Sale of goods and services:				
Foods	<b>₱32,365,540</b>	₱32,743,788	<b>₱99,772,949</b>	₱99,784,656
Real estate and hotels	<b>4,451,464</b>	7,798,678	<b>19,671,048</b>	22,543,035
Air transportation	<b>2,007,257</b>	18,921,600	<b>19,341,678</b>	63,624,574
Petrochemicals	<b>7,252,491</b>	7,539,863	<b>14,471,503</b>	26,121,049
Banking	<b>2,086,035</b>	2,154,920	<b>6,874,823</b>	6,048,664
Dividend income	<b>993,547</b>	650,800	<b>2,000,303</b>	1,330,500
Equity in net earnings of associates and joint ventures	<b>1,359,582</b>	1,937,176	<b>4,559,847</b>	10,401,515
Supplementary businesses	<b>227,407</b>	225,356	<b>571,397</b>	555,886
	<b>50,743,323</b>	71,972,181	<b>167,263,548</b>	230,409,879
<b>COST OF SALES AND SERVICES</b>	<b>34,705,032</b>	47,043,102	<b>113,095,816</b>	146,305,282
<b>GROSS INCOME</b>	<b>16,038,291</b>	24,929,079	<b>54,167,732</b>	84,104,597
<b>OTHER OPERATING EXPENSES</b>				
General and administrative expenses	<b>13,962,488</b>	14,562,433	<b>42,827,896</b>	42,874,925
Impairment losses and others	<b>161,258</b>	39,005	<b>771,395</b>	52,772
	<b>14,123,746</b>	14,601,438	<b>43,599,291</b>	42,927,697
<b>OPERATING INCOME</b>	<b>1,914,545</b>	10,327,641	<b>10,568,441</b>	41,176,900
<b>OTHER INCOME (LOSSES)</b>				
Financing costs and other charges	<b>(2,341,071)</b>	(2,556,415)	<b>(7,197,311)</b>	(8,434,248)
Market valuation gains (losses) on derivative financial instruments	<b>(240,073)</b>	(223,151)	<b>(2,165,713)</b>	67,261
Foreign exchange gains (losses)	<b>1,280,196</b>	(1,365,992)	<b>1,802,234</b>	(953,891)
Finance income	<b>307,505</b>	457,996	<b>943,469</b>	1,637,678
Market valuation losses on financial assets at fair value through profit or loss	<b>65,654</b>	(86,306)	<b>(282,375)</b>	694,191
Others	<b>(34,788)</b>	(15,221)	<b>(103,708)</b>	(318,165)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>951,968</b>	6,538,552	<b>3,565,037</b>	33,869,726
<b>PROVISION FOR INCOME TAX</b>	<b>496,441</b>	1,002,641	<b>2,200,679</b>	4,551,048
<b>NET INCOME (LOSS)</b>	<b>₱455,527</b>	₱5,535,911	<b>₱1,364,358</b>	₱29,318,678
<b>NET INCOME ATTRIBUTABLE TO</b>				
Equity holders of the Parent Company	<b>₱844,100</b>	₱3,677,810	<b>₱123,847</b>	₱21,073,533
Non-controlling interests	<b>(388,573)</b>	1,858,101	<b>1,240,511</b>	8,245,145
	<b>₱455,527</b>	₱5,535,911	<b>₱1,364,358</b>	₱29,318,678

	Quarters Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
<b>NET INCOME (LOSS)</b>	<b>₱455,527</b>	₱5,535,911	<b>₱1,364,358</b>	₱29,318,678
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>				
Item that may be reclassified subsequently to profit or loss:				
Cumulative translation adjustments	(631,696)	956,633	(37,087)	2,713,540
Net gains (losses) on financial assets at FVOCI (debt securities)	107,623	133,712	(115,618)	1,331,220
Net gains (losses) from cash flow hedges	174,129	1,965	(358,584)	512
Share in the net unrealized losses on financial assets at FVOCI (debt securities)	28,587	21,580	22,451	149,026
	<b>(321,357)</b>	1,113,890	<b>(488,838)</b>	4,194,298
Item that will not be reclassified subsequently to profit or loss:				
Net gains (losses) on financial assets at FVOCI (equity securities)	2,162,205	(2,874,667)	8,568,753	165,259
Remeasurements due to defined benefit liability, net of tax	--	(8,490)	(12,751)	293
Share in remeasurements of the net defined benefit liability of associates	(31)	15,372	(621)	100,076
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>1,840,817</b>	(1,753,895)	<b>8,066,543</b>	4,459,926
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱2,296,346</b>	₱3,782,016	<b>₱9,430,901</b>	₱33,778,604
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>				
Equity holders of the Parent Company	<b>₱2,909,658</b>	₱1,958,671	<b>₱8,163,384</b>	₱23,889,615
Non-controlling interests	(613,312)	1,823,345	1,267,517	9,888,989
	<b>₱2,296,346</b>	₱3,782,016	<b>₱9,430,901</b>	₱33,778,604
<b>Earnings Per Share Attributable to Equity Holders of the Parent Company</b>				
Basic/diluted earnings per share (Note 22)	<b>₱0.12</b>	₱0.51	<b>₱0.02</b>	₱2.94

*See accompanying Notes to Consolidated Financial Statements.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**
**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(In Thousands)

For the Nine Months Ended September 30, 2020 and 2019															
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY															
	Paid-up Capital (Note 20)			Retained Earnings			Other Comprehensive Income						NON-CONTROLLING INTERESTS	TOTAL EQUITY	
	Capital Stock	Additional Paid-in Capital	Total Paid-up Capital	Unrestricted Retained Earnings	Restricted Retained Earnings	Total Retained Earnings	Equity Reserve	Cumulative Translation Adjustments	Net Unrealized Gains (Losses) on Financial Assets at FVOCI	Net Unrealized Losses on Cash Flow Hedge	Remeasurements of the Net Defined Benefit Liability	Total Other Comprehensive Income (Loss)			Total
Balance at January 1, 2020	P7,202,842	P23,553,025	P30,755,867	P149,688,466	P118,284,329	P267,972,795	P30,870,149	P135,083	(P23,832,622)	P121,883	(P1,211,513)	(P24,787,169)	P304,811,642	P103,835,500	P408,647,142
Total comprehensive income (loss)	-	-	-	123,847	-	123,847	-	(204,885)	8,500,037	(242,517)	(13,098)	8,039,537	8,163,384	1,267,517	9,430,901
Cash dividends	-	-	-	(2,737,080)	-	(2,737,080)	-	-	-	-	-	-	(2,737,080)	-	(2,737,080)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,491,200)	(4,491,200)
Increase in subsidiary's treasury shares	-	-	-	-	-	-	280	-	-	-	-	-	280	(45,041)	(44,761)
Issuance of shares by a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	510,500	510,500
<b>Balance at September 30, 2020</b>	<b>P7,202,842</b>	<b>P23,553,025</b>	<b>P30,755,867</b>	<b>P147,075,233</b>	<b>P118,284,329</b>	<b>P265,359,562</b>	<b>P30,870,429</b>	<b>P(69,802)</b>	<b>(15,332,585)</b>	<b>(120,634)</b>	<b>(1,224,611)</b>	<b>(16,747,632)</b>	<b>P310,238,226</b>	<b>P101,077,276</b>	<b>P411,315,502</b>
Balance at January 1, 2019	P7,202,842	P23,553,025	P30,755,867	P121,317,360	P117,784,330	P239,101,690	P29,573,169	(P538,393)	(P22,647,670)	P2,541	P338,667	(P22,844,855)	P276,585,871	P90,891,990	P367,477,861
Total comprehensive income (loss)	-	-	-	21,073,533	-	21,073,533	-	1,486,465	1,233,967	(3,221)	98,871	2,816,082	23,889,615	9,888,989	33,778,604
Cash dividends	-	-	-	(2,665,052)	-	(2,665,052)	-	-	-	-	-	-	(2,665,052)	-	(2,665,052)
Change in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,021,520)	(6,021,520)
Investment in subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	159,250	159,250
Issuance of shares by a subsidiary	-	-	-	-	-	-	(16,132)	-	-	-	-	-	(16,132)	(104,452)	(120,584)
<b>Balance at September 30, 2019</b>	<b>P7,202,842</b>	<b>P23,553,025</b>	<b>P30,755,867</b>	<b>P139,725,841</b>	<b>P117,784,330</b>	<b>P257,510,171</b>	<b>P29,557,037</b>	<b>P948,072</b>	<b>(P21,413,703)</b>	<b>(P680)</b>	<b>P437,538</b>	<b>(P20,028,773)</b>	<b>P297,794,302</b>	<b>P94,814,257</b>	<b>P392,608,559</b>



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

(In Thousands)

	<b>Nine Months Ended September 30</b>	
	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱3,565,037</b>	₱33,869,727
Adjustments for:		
Depreciation and amortization	<b>23,463,574</b>	22,137,565
Market valuation losses (gains) on:		
Financial assets at fair value through profit or loss	<b>282,376</b>	(694,191)
Derivative instruments	<b>2,165,713</b>	(67,261)
Interest expense	<b>7,019,570</b>	8,703,101
Dividend income	<b>(2,000,303)</b>	(1,330,500)
Interest income	<b>(943,469)</b>	(1,693,628)
Equity in net earnings of associates and joint ventures	<b>(4,559,847)</b>	(11,019,615)
Foreign exchange losses (gains)	<b>(1,802,234)</b>	953,891
Loss (gain) on sale and retirement of property, plant and equipment	<b>10,242</b>	217,551
Gain (loss) on sale of financial assets at FVOCI	<b>(15,514)</b>	(316,469)
Losses (gains) arising from changes in fair value less estimated costs to sell of swine stocks	<b>(23,306)</b>	(21,176)
Inventory obsolescence and market decline	<b>237</b>	2,406
Provision for impairment losses on receivables	<b>771,157</b>	50,366
Operating income before changes in working capital accounts	<b>27,933,233</b>	50,791,767
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Financial assets at fair value through profit or loss	<b>(1,319,771)</b>	(304,273)
Derivative financial instruments	<b>(2,192,386)</b>	67,037
Receivables	<b>(4,441,966)</b>	(5,636,383)
Inventories	<b>(2,449,132)</b>	3,723,521
Biological assets	<b>565,796</b>	(457,564)
Other current assets	<b>(958,828)</b>	(1,281,004)
Increase (decrease) in the amounts of:		
Accounts payable and accrued expenses	<b>1,401,321</b>	(3,231,302)
Unearned transportation revenue	<b>(7,374,552)</b>	836,639
Other current liabilities	<b>2,640,069</b>	(6,307,782)
Net cash generated from operations	<b>13,803,784</b>	38,200,656
Interest paid	<b>(7,308,038)</b>	(9,470,778)
Income taxes paid	<b>(3,448,698)</b>	(4,656,159)
Interest received	<b>449,215</b>	1,734,964
Net cash provided by operating activities	<b>3,496,263</b>	25,808,683

(Forward)

**Nine Months Ended September 30**

	2020	2019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property, plant and equipment	₱(24,965,914)	(₱30,311,705)
Investment properties	(7,699,134)	(6,551,747)
Investments in associates and joint ventures (Note 14)	(216,762)	(993,084)
Intangible assets	(488,617)	(88,499)
Net decrease (increase) in the amounts of:		
Financial assets at FVOCI	(5,027,022)	8,278,976
Investment securities at amortized cost	2,995,504	1,191,213
Other noncurrent assets (Note 15)	(3,890,741)	(760,653)
Proceeds from sale of property, plant and equipment	2,153,075	4,416,703
Dividends received on investments in associates and JVs	6,567,675	6,869,260
Dividends received	1,208,601	1,330,500
Net cash used in investing activities	(29,363,335)	(16,619,036)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net availments (payments) of:		
Short-term debts	(12,850,814)	12,059,395
Long-term debts	52,675,818	(10,868,688)
Decrease in the amounts of:		
Other noncurrent liabilities (Note 19)	12,061,285	(2,670,541)
Non-controlling interests	(4,491,201)	(6,021,520)
Purchase of subsidiary's treasury shares	(44,761)	(120,584)
Dividends paid on common shares	(2,721,880)	(2,650,252)
Dividends paid on preferred shares	(15,200)	(14,800)
Cash received from non-controlling interest for issuance of shares by a subsidiary	510,500	159,250
Net cash provided by financing activities	45,123,747	(10,127,740)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>19,256,675</b>	<b>(938,093)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>64,343,249</b>	<b>49,194,676</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>	<b>₱83,599,924</b>	<b>₱48,256,583</b>

*See accompanying Notes to Consolidated Financial Statements.*

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(In Thousands)

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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 of Article Third 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 Security and Exchange Commission 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	Philippine Peso
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
JG Summit Olefins Corporation		
JGSOC Philippines Limited	British Virgin Islands	US Dollar
<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-
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	Hong Kong	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.	Hong Kong	Hong Kong Dollar
World Century Enterprise Ltd.	-do-	-do-
First Capital Development, Ltd	-do-	-do-
Chengdu Xin Yao Real Estate Development, Co. Ltd	China	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	
			2020	2019
<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	<b>55.25</b>	55.25
CFC Clubhouse Property, Inc. (CCPI).	-do-	CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City	—	—
CFC Corporation	-do-	-do-	<b>55.25</b>	55.25
Bio-Resource Power Generation Corporation	-do-	Manjuyod, Negros Oriental	<b>55.25</b>	55.25
Nissin-URC	-do-	CFC Bldg., E. Rodriguez Jr. Ave., Bagong Ilog, Pasig City	<b>28.17**</b>	28.17**
Calbee-URC, Inc (CURCI)	-do-	8th floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	<b>55.25</b>	55.25
URC Beverages Ventures, Inc. (formerly, Hunt - URC (HURC))	-do-	8th floor Tera Tower Bridgetowne E. Rodriguez Jr., Ave (C5 Road) Ugong Norte, Quezon City	<b>55.25</b>	55.25
URC Philippines, Limited (URCPL)	British Virgin Islands	Offshore Incorporations Limited, P.O. Box 957 Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	<b>55.25</b>	55.25
URC International Co. Ltd. (URCICL) and Subsidiaries	-do-	-do-	<b>55.25</b>	55.25
Universal Robina (Cayman), Ltd. (URCL)	Cayman Islands	Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands, British West Indies	<b>55.25</b>	55.25
URC China Commercial Co., Ltd.	China	318 Shangcheng Road, Room 1417 Lian You Bldg., Pudong, Shanghai, China	<b>55.25</b>	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	<b>100.00</b>	100.00
Cebu Air, Inc. (CAI) and Subsidiaries	-do-	-do-	<b>67.87</b>	67.80
<b>Real Estate and Hotels</b>				
Robinsons Land Corporation (RLC) and Subsidiaries	Philippines	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	<b>60.97</b>	60.97
Robinson's Inn, Inc.	-do-	-do-	<b>60.97</b>	60.97
Robinsons Realty and Management Corporation	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	<b>60.97</b>	60.97
Robinsons (Cayman) Limited	Cayman Islands	Maples and Calder, P.O. Box 309, Uglan House, South Church Street, Grand Cayman, Cayman Islands	<b>60.97</b>	60.97
Robinsons Properties Marketing and Management Corporation	Philippines	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	<b>60.97</b>	60.97
Manhattan Buildings and Management Corp	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	<b>60.97</b>	60.97
Altus Angeles, Inc.	-do-	McArthur Highway, Balisage, Angeles City, Pampanga	<b>31.09**</b>	31.09**
Go Hotels Davao, Inc.	-do-	Lanang, Davao City	<b>31.09**</b>	31.09**
RLC Resources Ltd	British Virgin Islands	British Virgin Islands	<b>60.97</b>	60.97
Land Century Holdings, Ltd.	Hong Kong	Hong Kong	<b>60.97</b>	60.97
World Century Enterprise Ltd.	Hong Kong	Hong Kong	<b>60.97</b>	60.97
First Capital Development, Ltd	Hong Kong	Hong Kong	<b>60.97</b>	60.97

(Forward)

Subsidiaries	Country of Incorporation	Principal place of business	Effective Percentage of Ownership	
			2020	2019
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 Mall Ventures, Inc.	Philippines	Philippines	60.97	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
Peak Fuel Corporation	-do-	10 <sup>th</sup> Floor Robinsons Cybergate Gamma, Bldg., Topaz and Ruby Roads, Ortigas Center, Pasig City	100.00	
JG Summit Olefins Corporation (JGSOC)	-do-	43rd Floor, Robinsons Equitable Tower, ADB Avenue, Ortigas Center, Pasig City	100.00	100.00
JGSOC Philippines Limited	BVI	British Virgin Islands	100.00	--
<b>Banking</b>				
Robinsons Bank Corporation (RBC) and a Subsidiary	-do-	17th floor, Galleria Corporate Center EDSA corner Ortigas Avenue, Quezon City	60.00	60.00
Legazpi Savings Bank, Inc. (LSB)	-do-	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, Ilocos Norte	60.97	60.97
JG Digital Equity Ventures, Inc. and a Subsidiary	-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	-do-	40th Floor, Robinsons-Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center, Pasig City	100.00	100.00
JG Summit Capital Markets Corporation (JGSMC)	-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, Ugland 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 Development, Ltd.	-do-	-do-	100.00	100.00
Summit Top Investment, Ltd.	-do-	-do-	100.00	100.00
Unicon Insurance Brokers Corporation (UIBC)	Philippines	CFC Bldg., E. Rodriguez Avenue, Bagong Ilog, Pasig City	100.00	100.00
JG Summit Infrastrure Holdings Corporation	-do-	43 <sup>rd</sup> Floor Robinsons Equitable Tower, ADB avenue, Corner Poveda Road, Pasig City	100.00	100.00
Data Analytics Ventures, Inc	-do-	30 <sup>th</sup> Floor Robinsons Cybergate Gamma, Bldg., Topaz and Ruby Roads, Ortigas Center, Pasig City	45.20	45.17
Merbau Corporation	-do-	Ground floor Cybergate Tower 1 Edsa cor Pioneer St. Mandaluyong City	100.00	100.00
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
Hometel 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 Group 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 effected 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 in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of new standards effective as of January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective except for the amendments to Philippine Financial Reporting Standard (PFRS) 16, *Leases*. Unless otherwise indicated, adoption of these new standards did not have an impact on the unaudited interim condensed consolidated financial statements of the Group.

- *Amendments to PFRS 3, Business Combinations, Definition of a Business*  
The amendments to PFRS 3 clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments may impact future periods should the Group enter into any business combinations.
- *Amendments to PFRS 7, Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*  
The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

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

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

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

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

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

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The Group adopted the amendments beginning January 1, 2020. As a result of the COVID-19 pandemic and the enhanced community quarantine implemented by the Philippine government, the Group granted rent concession to its selected mall and office building tenants.

## **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 AFVOCI 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

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.

#### 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.

#### Hedge Accounting

The hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationship more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships.

Under PFRS 9, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is 'an economic relationship' between the hedged item and the hedging instrument;
- the effect of credit risk does not 'dominate the value changes' that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

#### 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.

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 dacion 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	Licenses	Product Formulation and Brands	Software Costs	Customer Relationship	Trademarks
EUL	Finite (12 to 13.75 years)	Indefinite	Indefinite	Finite (5 - 10 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' 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 from continuing operations are recognized under '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 reporting date.

#### *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

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.

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

#### Revenue Recognition

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

##### *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

*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 conditional. This is reclassified as installment contract receivables when the monthly amortization of the customer is already due for collection.

##### *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.



## **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 FVOCI, 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.

### *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, 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*

##### 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 overtime 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.

#### *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. 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.

*g. 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.

*h. 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.

*i. 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.

*j. 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.

- k. *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.

- l. *Contingencies*

The Group is currently involved in certain legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's consolidated financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 25).

#### 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.

In determining whether indicators of impairment are present, the Group considered whether COVID-19 and the measures taken to control it were likely to reduce future cash inflows or increase operating and other costs. The assumptions and cash flow forecasts used to test for impairment were updated to reflect the potential impact of COVID-19. Budgets, forecasts and other assumptions used to determine the recoverable amount of an asset were revised to reflect the economic conditions at the reporting date, specifically to address increased risk and uncertainty. The Group ensured that appropriate risk was reflected in either the cash flows or the discount rate.

For the nine months ended September 30, 2020 and 2019, no impairment loss was recognized on goodwill, intangible assets and other nonfinancial assets.

*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 inputs
- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs.
- Selection of forward-looking information and determination of probability weightings to derive the ECL

For installment contracts 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 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 will calibrate 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.

The Group considered the impact of COVID-19 in estimating the amount of ECL to be recognized. This included the identification of specific industries that were adversely affected

by COVID-19, which might result in an increase in credit risk of the borrower. In addition, borrowers affected by COVID-19 may draw down on existing unused borrowing facilities, or take longer than normal to pay resulting in a greater amount exposure at default. Loss given default may increase if COVID-19 results in a decrease in the fair value of a non-financial asset pledged as collateral. The Group also considered whether payment holidays indicate that affected loans have suffered a significant increase in credit risk or default.

In addition, PFRS 9 requires that forward-looking information (including macro-economic information) is considered both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses. The Group revised their existing forecast of multiple economic scenarios to reflect a more severe downside and/or giving more weight to the downside scenario.

*c. 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.

*d. 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.

*e. 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 nine months ended September 30, 2020 and 2019, the real estate sales recognized over time amounted to ₱9.6 billion and ₱7.2 billion, respectively, while the related cost of real estate sales amounted to ₱5.1 billion and ₱3.5 billion, respectively.

*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 Note 12 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 costs of restoration at the end of the contract period. Since the first operating lease entered by the Group in 2001, these costs are accrued based on an internal estimate which includes estimates of certain redelivery costs at the end of the operating aircraft lease. The contractual obligation includes regular aircraft maintenance, overhaul and restoration of the leased aircraft to its original condition. Regular aircraft maintenance is accounted for as expense when incurred, while overhaul and restoration are accounted on an accrual basis.

Assumptions and estimates used to compute ARO are reviewed and updated annually by the Group. As of September 30, 2020 and 2019, 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 19 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.

*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. 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.

*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. 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.

*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 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.

*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 reassessed their forecast of taxable income, taking into consideration the impact of temporary decline in profitability and availability of tax planning opportunities. The Group has historically been able to utilize their NOLCO prior to the expiration date.

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.

*m. Estimate on when the buyers' investment is qualified for revenue recognition on real estate sales*

Effective January 1, 2020, the Group changed its basis in assessing 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 customer's initial payments in relation to the total contract price. Marketing and selling statistics and experiences over the past several years which include, among others, buyers' credit standings and sales returns prompted the Group to revisit and accordingly revise the basis of estimating the level of buyers' payments that is highly probable that the Group will collect the consideration from the contract. The change in estimate increased the real estate sales by ₱5.4 billion, operating income by ₱2.5 billion and net income by ₱1.7 billion for the nine months ended September 30, 2020. The effect of this change in the future periods is not disclosed because it cannot be estimated as it is dependent on future sales transactions.

*n. Assessment of subsequent events as adjusting or non-adjusting event*

The Group exercised significant judgment in determining which events after the reporting date are adjusting events.

The COVID-19 outbreak has been considered by the Group as a current-period event and has factored in the impact based on the information reasonably determinable as of the reporting date into the assumptions and assessments used in the preparation of financial statements. The Group continues to evaluate the impact of the pandemic to determine the extent to which developments after the reporting date should be recognized in the reporting period.

As the impact of the COVID-19 outbreak continues to evolve, capturing events that relate to conditions that existed at or before the reporting date will require careful assessment. In the evaluation, the Group has carefully ensured that it did not use hindsight as it is not permitted under PFRS as the financial statements should be prepared based on information available as of the reporting date. The Group has carefully assessed specific facts and circumstances to identify events that generally represent the culmination of a series of conditions that existed at or before the reporting date.

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

The Group's principal financial instruments, other than derivative financial instruments, comprise cash and cash equivalents, financial assets at FVPL, interest-bearing loans and borrowings and payables and other financial liabilities. 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 trade 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

- d. 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 Services*

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 CGMS, 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 FVPL 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.



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.

#### 1. Credit risk exposure

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.

#### 2. 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.

### 3. Credit quality per class of financial assets

#### *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>
High grade		
<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.
Standard		
<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

<b>Grades</b>	<b>Categories</b>	<b>Description</b>
<i>Risk rating 7</i>	Average	continued payment is vulnerable to deterioration in the business/economic condition. 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.
<hr/>		
Sub-standard grade <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.
<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.
<hr/>		
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:

<b>Staging Parameter</b>	<b>Stage</b>	<b>Description</b>
Staging by Days Past Due	1	<i>Applicable to all loan products</i> 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).

<b>Staging Parameter</b>	<b>Stage</b>	<b>Description</b>
	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		<i>Applicable to Commercial Loans (Large Scale and Medium Scale) only</i>
	1	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 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		<i>Applicable to all loan products</i>
	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

<b>Staging Parameter</b>	<b>Stage</b>	<b>Description</b>
		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.

#### 4. *Aging analysis of receivables by class*

The aging analysis of the Group's receivables as of September 30, 2020 follow:

	<b>Neither Past Due Nor Impaired</b>	<b>Past Due But Not Impaired</b>				<b>Past Due and Impaired</b>	<b>Total</b>
		<b>Less than 30 Days</b>	<b>30 to 60 Days</b>	<b>61 to 90 Days</b>	<b>Over 90 Days</b>		
Finance receivables*	<b>₱78,964,618</b>	<b>₱34,404</b>	<b>₱954,064</b>	<b>₱421,587</b>	<b>₱881,600</b>	<b>₱411,087</b>	<b>₱81,667,360</b>
Trade receivables	<b>17,566,217</b>	<b>3,366,920</b>	<b>1,140,418</b>	<b>432,850</b>	<b>1,975,384</b>	<b>240,384</b>	<b>24,722,173</b>
Due from related parties	<b>3,074,101</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,074,101</b>
Interest receivable	<b>1,383,121</b>	<b>92,829</b>	<b>50,447</b>	<b>22,651</b>	<b>97,650</b>	<b>27,686</b>	<b>1,674,384</b>
Others**	<b>4,913,210</b>	<b>440,872</b>	<b>1,794</b>	<b>1,298</b>	<b>404,643</b>	<b>320,382</b>	<b>6,082,199</b>
	<b>₱105,901,267</b>	<b>₱3,935,025</b>	<b>₱2,146,723</b>	<b>₱878,386</b>	<b>₱3,359,277</b>	<b>₱999,539</b>	<b>₱117,220,217</b>

\* Gross of unearned interest discount

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

#### *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.

#### *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.

#### *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.

#### *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.

#### *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.

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

#### *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.

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 260 historical data (approximately 1 year), 99.50% confidence level and 1-day holding period. On August 17, 2016, RBC implemented new assumptions in the model, specifically the use of 500 historical data (approximately 2 years) and 99.00% confidence level, with the holding period still at 1-day.

#### *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 and thus, 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 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 anything the VaR model may have calculated; 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 RBC's Risk Management Committee, Asset-Liability Committee (ALCO) and the concerned risk-takers.

VaR backtesting 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 backtesting.

#### *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 the Parent Company'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 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.

#### *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.



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## 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.

*Debt securities*

Fair values of debt securities are generally based on quoted market prices.

*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 investment in convertible note's fair value is measured using the discounted cash flow model (using current incremental lending rates for similar types of loans) and the Black-Scholes-Merton model (using the underlying's stock price and stock volatility).

*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 cost plus reasonable profit margin or replacement cost as applicable. 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.

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*

The carrying amount of the investment properties approximates its fair value as of reporting date. Fair value of investment properties are 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.

#### *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.

#### *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.

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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 Excomoversees 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 nine months ended September 30, 2020 and 2019. Core earnings pertain to income before income tax excluding market valuation gains (losses) on financial assets at FVPL, market valuation gains on derivative financial instruments and foreign exchange gains (losses).

The Group's operating segment information follows:

	September 30, 2020							
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	P99,772,949	P19,341,678	P19,671,048	P14,471,503	P6,874,823	P571,397	P-	P160,703,398
Intersegment revenue	-	-	261,569	617,737	-	-	(879,306)	-
	99,772,949	19,341,678	19,932,617	15,089,240	6,874,823	571,397	(879,306)	160,703,398
Dividend income	64,606	-	-	-	8,580	1,928,316	(1,199)	2,000,303
Equity in net earnings of associates and joint ventures	(42,467)	(268,569)	1,206,882	-	-	3,567,156	96,845	4,559,847
<b>Total revenue</b>	<b>99,795,088</b>	<b>19,073,109</b>	<b>21,139,499</b>	<b>15,089,240</b>	<b>6,883,403</b>	<b>6,066,869</b>	<b>(783,660)</b>	<b>167,263,548</b>
Cost of sales and services	69,159,653	16,444,865	10,443,209	16,022,079	1,771,718	19,941	(765,649)	113,095,816
<b>Gross income (loss)</b>	<b>P30,635,435</b>	<b>P2,628,244</b>	<b>P10,696,290</b>	<b>(P932,839)</b>	<b>P5,111,685</b>	<b>P6,046,928</b>	<b>(P18,011)</b>	<b>54,167,732</b>
General and administrative expenses								42,827,896
Impairment losses and others								771,395
<b>Operating income</b>								<b>10,568,441</b>
Financing cost and other charges								(7,197,311)
Finance income								943,469
Other operating income								(103,708)
<b>Core earnings</b>								<b>4,210,891</b>
Market valuation gains (losses) on financial assets								(2,448,088)
Foreign exchange gains (losses)								1,802,234
<b>Income before income tax</b>								<b>3,565,037</b>
Provision for income tax								2,200,679
<b>Net income</b>								<b>P1,364,358</b>
<b>Net income attributable to equity holders of the Parent Company</b>	<b>P4,142,637</b>	<b>(P9,966,637)</b>	<b>P3,817,650</b>	<b>(P1,936,410)</b>	<b>P471,733</b>	<b>P3,429,192</b>	<b>P165,682</b>	<b>P123,847</b>
<b>EBIT</b>	<b>P11,911,108</b>	<b>P-13,722,018</b>	<b>P6,938,511</b>	<b>P(1,893,651)</b>	<b>P976,523</b>	<b>P6,357,968</b>	<b>P-</b>	<b>P10,568,441</b>
Depreciation and amortization	5,512,462	12,177,343	3,834,187	1,642,639	452,409	174,532	(329,997)	23,463,575
<b>EBITDA</b>	<b>P17,423,570</b>	<b>(P1,544,675)</b>	<b>P10,772,698</b>	<b>(P251,012)</b>	<b>P1,428,932</b>	<b>P6,532,500</b>	<b>(P329,997)</b>	<b>P34,032,016</b>

September 30, 2019

	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Revenue</b>								
Sale of goods and services:								
External customers	P99,784,656	P63,624,574	P22,543,035	P26,121,049	P6,048,664	P555,886	P-	P218,677,864
Intersegment revenue	-	-	63,251	943,576	-	-	(1,004,727)	-
	99,784,656	63,624,574	22,606,286	27,064,625	6,048,664	555,886	(1,004,727)	218,677,864
Dividend income	16,151	-	-	-	7,949	1,307,598	(1,198)	1,330,500
Equity in net earnings of associates and joint ventures	(38,891)	70,426	4,708,845	-	-	5,675,704	(14,569)	10,401,515
<b>Total revenue</b>	99,761,916	63,695,000	27,315,131	27,064,625	6,056,613	7,539,188	(1,020,494)	230,409,879
Cost of sales and services	70,161,520	37,085,591	10,611,993	27,052,323	2,468,337	-	(1,074,482)	146,305,282
<b>Gross income (loss)</b>	P29,600,396	P26,609,409	P16,703,138	P12,302	P3,588,276	P7,539,188	P53,988	84,104,597
General and administrative expenses								42,874,925
Impairment losses and others								52,772
<b>Operating income</b>								41,176,900
Financing cost and other charges								(8,434,248)
Finance income								1,637,678
Other operating income								(318,165)
<b>Core earnings</b>								34,062,165
Market valuation gains (losses) on financial assets								761,452
Foreign exchange gains (losses)								(953,891)
<b>Income before income tax</b>								33,869,726
Provision for income tax								4,551,048
<b>Net income</b>								P29,318,678
<b>Net income attributable to equity holders of the Parent</b>								
<b>Company</b>	P3,866,028	P4,579,359	P8,607,443	(P1,602,565)	P280,786	P5,348,158	(P5,676)	P21,073,533
<b>EBIT</b>	P11,032,447	P9,815,988	P8,914,896	(P1,004,046)	P566,206	P11,851,409	P-	P41,176,900
Depreciation and amortization	5,514,473	11,044,621	3,626,714	1,475,685	389,072	87,000	-	22,137,565
<b>EBITDA</b>	P16,546,920	P20,860,609	P12,541,610	P471,639	P955,278	P11,938,409	P-	P63,314,465

September 30, 2020								
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization								
Impairment losses on:								
Receivables	P751	P324	P-	P-	P770,082	P-	P-	P771,157
Inventories	238	-	-	-	-	-	-	238
	<b>P989</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P770,082</b>	<b>P-</b>	<b>P-</b>	<b>P771,395</b>

September 30, 2019								
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	TOTAL OPERATIONS
<b>Other information</b>								
Non-cash expenses other than depreciation and amortization								
Impairment losses on:								
Inventories	P2,406	P-	P-	P-	P-	P-	P-	P2,406
Receivables	1,663	-	-	-	48,703	-	-	50,366
	<b>P4,069</b>	<b>P-</b>	<b>P-</b>	<b>P-</b>	<b>P48,703</b>	<b>P-</b>	<b>P-</b>	<b>P52,772</b>

Other information on the Group's operating segments follow:

September 30, 2020								
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Segment assets	P170,780,294	P134,231,252	P214,342,617	P125,153,161	P141,383,344	P296,758,643	(P103,435,920)	P979,213,391
Segment liabilities	P74,741,480	P105,899,441	P112,208,412	P71,002,848	P123,549,570	P117,843,589	P-37,347,451	P567,897,889
Capital expenditures	P9,533,281	P3,418,447	P7,736,452	P11,704,213	P77,326	P195,328	P-	P32,665,047

September 30, 2019								
	Foods, Agro-Industrial and Commodities	Air Transportation	Real Estate and Hotels	Petrochemicals	Banking	Other Supplementary Businesses	Adjustments and Eliminations	Consolidated
Segment assets	P168,652,990	P157,977,017	P189,651,210	P115,700,303	P126,573,370	P192,522,080	(P22,767,451)	P928,309,519
Segment liabilities	P73,468,488	P114,441,735	P89,573,539	P60,088,111	P109,512,896	P103,795,579	(31,217,972)	P519,662,376
Capital expenditures	P7,192,529	P4,591,226	P7,743,860	P17,135,305	P163,048	P37,483	P-	P36,863,451



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

	September 30, 2020			December 31, 2019		
	Non-banks	Banks	Consolidated	Non-banks	Banks	Consolidated
<b>ASSETS</b>						
<b>Current Assets</b>						
Cash and cash equivalents	₱65,637,780	₱17,962,144	₱83,599,924	₱48,573,642	₱15,769,607	₱64,343,249
Financial assets at fair value through profit and loss	5,333,964	87,084	5,421,048	4,379,709	4,936	4,384,645
Financial assets at fair value through other comprehensive income	12,269,923	14,865,147	27,135,070	8,286,428	13,973,462	22,259,890
Receivables	28,761,904	13,371,138	42,133,042	23,666,188	24,046,722	47,712,910
Inventories	72,022,612	–	72,022,612	68,513,876	–	68,513,876
Biological assets	188,546	–	188,546	733,436	–	733,436
Contract assets	4,191,778	–	4,191,778	3,007,039	–	3,007,039
Other current assets	22,307,689	669,035	22,976,724	23,075,658	124,976	23,200,634
<b>Total current assets</b>	<b>210,714,196</b>	<b>46,954,548</b>	<b>257,668,744</b>	<b>180,235,976</b>	<b>53,919,703</b>	<b>234,155,679</b>
<b>Noncurrent Assets</b>						
Financial assets at fair value through other comprehensive income	32,670,837	–	32,670,837	24,050,347	–	24,050,347
Receivables	3,580,410	67,860,069	71,440,479	3,677,362	57,236,186	60,913,548
Investments at amortized cost	–	8,361,757	8,361,757	–	11,357,261	11,357,261
Investments in associates and joint ventures	149,775,010	–	149,775,010	151,691,573	–	151,691,573
Investments properties	101,278,224	429,151	101,707,375	98,617,891	382,355	99,000,246
Contract assets	10,933,242	–	10,933,242	7,843,135	–	7,843,135
Property, plant and equipment	265,141,157	535,740	265,676,897	258,325,525	917,292	259,242,817
Right-of-use assets	19,709,386	711,538	20,420,924	20,140,085	391,336	20,531,421
Biological assets	145,848	–	145,848	224,128	–	224,128
Goodwill	31,761,277	244,327	32,005,604	31,761,277	244,327	32,005,604
Intangible assets	12,880,547	1,319,750	14,200,297	12,598,588	1,299,802	13,898,390
Other noncurrent assets	13,415,985	780,017	14,196,002	12,570,260	825,109	13,395,369
<b>Total Noncurrent Assets</b>	<b>641,291,923</b>	<b>80,242,349</b>	<b>721,534,272</b>	<b>621,500,171</b>	<b>72,653,668</b>	<b>694,153,839</b>
	<b>₱852,006,119</b>	<b>₱127,196,897</b>	<b>₱979,203,016</b>	<b>₱801,736,147</b>	<b>₱126,573,371</b>	<b>₱928,309,518</b>

	September 30, 2020			December 31, 2019		
	Non-banks	Banks	Consolidated	Non-banks	Banks	Consolidated
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Accounts payable and accrued expenses	<b>₱64,750,672</b>	<b>₱82,732,437</b>	<b>₱147,483,109</b>	₱59,307,014	₱87,020,358	₱146,327,372
Short-term debt	<b>41,196,596</b>	–	<b>41,196,596</b>	54,047,410	–	54,047,410
Current portion of long-term debt	<b>35,487,973</b>	–	<b>35,487,973</b>	6,819,094	–	6,819,094
Derivative liabilities	<b>751,777</b>	<b>245</b>	<b>752,022</b>	418,641	463	419,104
Contract liabilities	<b>16,427,612</b>	–	<b>16,427,612</b>	14,184,664	–	14,184,664
Income tax payable	<b>883,160</b>	<b>13,175</b>	<b>896,335</b>	1,768,571	2,700	1,771,271
Other current liabilities	<b>15,087,190</b>	<b>381</b>	<b>15,087,571</b>	21,569,617	410	21,570,027
<b>Total current liabilities</b>	<b>174,584,980</b>	<b>82,746,238</b>	<b>257,331,218</b>	158,115,011	87,023,931	245,138,942
<b>Noncurrent liabilities</b>						
Long-term debt - net of current portion	<b>234,764,442</b>	–	<b>234,764,442</b>	212,116,441	–	212,116,441
Deferred tax liabilities	<b>8,311,054</b>	–	<b>8,311,054</b>	8,318,082	–	8,318,082
Contract liabilities	<b>10,985,867</b>	–	<b>10,985,867</b>	2,958,482	–	2,958,482
Other noncurrent liabilities	<b>29,878,048</b>	<b>26,616,885</b>	<b>56,494,933</b>	28,641,464	22,488,965	51,130,429
<b>Total noncurrent liabilities</b>	<b>283,939,411</b>	<b>26,616,885</b>	<b>310,556,296</b>	252,034,469	22,488,965	274,523,434
<b>Total Liabilities</b>	<b>458,524,391</b>	<b>109,363,123</b>	<b>567,887,514</b>	410,149,480	109,512,896	519,662,376
<b>Stockholders' equity</b>	<b>299,402,894</b>	<b>10,835,332</b>	<b>310,238,226</b>	294,575,357	10,236,285	304,811,642
<b>Minority interest in consolidated subsidiaries</b>	<b>94,078,834</b>	<b>6,998,442</b>	<b>101,077,276</b>	97,011,310	6,824,190	103,835,500
	<b>₱852,006,119</b>	<b>₱127,196,897</b>	<b>₱979,203,016</b>	₱801,736,147	₱126,573,371	₱928,309,518

### 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

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.

### 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.

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## 7. Cash and Cash Equivalents

This account consists of:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Cash on hand	<b>₱2,079,100</b>	₱3,410,775
Cash in banks	<b>39,409,580</b>	28,576,315
Cash equivalents	<b>42,111,244</b>	32,356,159
	<b>₱83,599,924</b>	₱64,343,249

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.

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## 8. Derivative Financial Instruments

### *Derivatives designated as accounting hedges*

As part of its asset and liability management, the Group uses derivatives 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.

- **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. 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. These swaps and collars can be exercised at various calculation dates with specified quantities on each calculation date. These instruments have various maturity dates through 2020 until 2021.

These derivatives designated for hedge accounting has a net liability position of ₱188.4 million as of September 30, 2020 and a net asset position of ₱47.9 million as of December 31, 2019.

- **Foreign currency forwards**  
CAI enters into foreign currency forwards to manage its exposures to foreign currency-denominated transactions given global operations. These forwards have various maturity dates through 2020.

As of September 30, 2020 and December 31, 2019, the net derivative liability amounted to ₱70.0 million and ₱174.2 million, respectively.

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.

### 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.

### *Derivatives not designated as accounting hedges*

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

- **Zero cost collars and Commodity swaps**  
On March 16, 2020, CAI discontinued, for the first time, application of hedge accounting on some of its fuel hedges following the suspension of flights in response to government-imposed enhanced community quarantine over the entire Luzon due to outbreak of COVID-19.

As of September 30, 2020 and December 31, 2019, CAI has fuel derivatives with net liability position treated as economic hedges amounting to ₱199.7 million and nil, respectively.

- Foreign currency forwards

On March 16, 2020, CAI likewise discontinued, for the first time, hedge accounting application on some FX forwards because of reduced forecasted fuel purchase following the suspension of flights in response to government-imposed enhanced community quarantine over the entire Luzon due to outbreak of COVID-19 and due to unforeseen drop in oil prices.

As of September 30, 2020 and December 31, 2019, CAI has FX derivatives with liability position treated as economic hedges amounting to ₱11.7 million and nil, respectively.

Following the Philippine Government announcing the easing of community quarantine after March 31, 2020, CAI's commercial flights during the next three months continued to be suspended leading to reduced forecasted fuel and USD-denominated purchases. With the newly available information, Management reassessed its hedging portfolio requiring discontinuation of hedge accounting for certain fuel and FX derivatives designated as cash flow hedges as corresponding hedged items were no longer highly probable and not expected to occur. Consequently, the related effective portion of the fair value losses recognized in OCI were immediately recycled from equity to profit or loss.

Movements in the 'Market valuation gains (losses) on derivative financial instruments' account follows for the nine months ended September 30, 2020 and 2019:

	2020	2019
<b>Attributable to accounting hedges:</b>		
Reclassification adjustment	(₱2,374,666,625)	₱–
Hedge ineffectiveness	102,631,038	–
<b>Attributable to economic hedges:</b>		
Net changes in fair value	106,322,779	67,261,334
	<b>(₱2,165,712,808)</b>	<b>₱67,261,334</b>

As a result of hedge accounting discontinuation, portion of the losses deferred in the cash flow hedge reserve have been reclassified to 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statements of comprehensive income amounting to ₱2.25 billion and ₱124.6 million from fuel and FX hedges, respectively.

For the nine months ended September 30, 2020, CAI recognized net loss in fair value of derivatives amounting to ₱2.2 billion under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statements of comprehensive income.

For the nine months ended September 30, 2019, CAI recognized net gain in fair value of derivatives amounting to ₱67.3 million under 'Market valuation gains (losses) on derivative financial instruments' in the consolidated statements of comprehensive income.

- Foreign currency swaps

RBC entered into foreign currency swap transactions with a net positive fair value of ₱1.8 million as of September 30, 2020 and ₱0.5 million as of December 31, 2019. In 2020 and 2019, RBC recognized net changes in fair value of derivatives amounting to ₱13.7 million gain and ₱4.9 million loss, respectively.

- Call Option

As part of change in ownership of URC Oceania Group, Intersnack was given an option to acquire an additional 9% equity share in UHC. As of September 30, 2020 and December 31, 2019, the call option has a negative fair value of ₱297.6 million and ₱305.8 million, respectively.

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'.

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

These investments that are held for trading consist of:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Debt securities:		
Government	<b>₱87,083</b>	₱3,943
Equity securities:		
Quoted	<b>1,534,937</b>	1,718,537
Investment in convertible note	<b>3,799,028</b>	2,661,172
Derivatives (Note 8)	–	993
	<b>₱5,421,048</b>	₱4,384,645

### *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).

### *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. The Series A-2 and Series B-1 preferred shares are classified under financial assets at FVOCI.

*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. In January 2020, JGSPL made an additional investment of USD25.0 million in JUUL Labs.

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. On March 31, 2020, the convertible loan was converted to 102,402 Series B shares of the Company.

*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.

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## 10. Financial Assets at Fair Value through Other Comprehensive Income

### Financial Assets at Fair Value through Other Comprehensive Income

This account consists of investments in:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Debt securities:		
Government	<b>₱5,885,866</b>	₱9,392,807
Private	<b>20,210,832</b>	11,902,368
	<b>26,096,698</b>	21,295,175
Equity securities:		
Quoted	<b>33,074,633</b>	24,528,007
Unquoted	<b>634,576</b>	487,055
	<b>33,709,209</b>	25,015,062
	<b>₱59,805,907</b>	₱46,310,237

Quoted equity securities pertain to investment in PLDT common shares and various golf club shares. The Group has irrevocably elected to classify these investments under this category as it intends to hold these investments for the foreseeable future.

Breakdown of Financial assets at FVOCI investments as shown in the consolidated statements of financial position follows:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Current portion	<b>₱27,135,070</b>	<b>₱22,259,890</b>
Noncurrent portion	<b>32,670,837</b>	<b>24,050,347</b>
	<b>₱59,805,907</b>	<b>₱46,310,237</b>

The Group has classified its 24.3 million PLDT shares representing 11.3% ownership interest as financial assets at FVOCI, which have carrying values of ₱32.7 billion and ₱24.1 billion as of September 30, 2020 and December 31, 2019, respectively.



## 11. Receivables

This account consists of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Finance receivables	P81,403,965	P79,837,553
Trade receivables	24,722,173	22,032,154
Due from related parties	1,844,101	2,547,715
Interest receivable	1,674,385	1,180,130
Other receivables	6,337,592	4,718,742
	115,982,216	110,316,294
Less allowance for impairment losses	2,408,695	1,689,836
	<b>P113,573,521</b>	<b>P108,626,458</b>

Total receivables shown in the consolidated statements of financial position follow:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Current portion	P42,133,042	P47,712,910
Noncurrent portion	71,440,479	60,913,548
	<b>P113,573,521</b>	<b>P108,626,458</b>

Noncurrent receivables consist of:

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
Finance receivables	P67,860,069	P57,236,186
Trade receivables	3,580,410	2,347,362
Due from related parties	-	1,330,000
	<b>P71,440,479</b>	<b>P60,913,548</b>

### Trade Receivables

Included in trade receivables are installment contract receivables of the real estate segment of the Group. These are collectible in monthly installments over a period of between one year to ten years. 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. Revenue from real estate and hotels includes interest income earned from installment contract receivables.

Other trade receivables are noninterest-bearing and generally have 30- to 90-day terms.

### Others

Other receivables include claims receivables, and other non-trade receivables.

Provision for credit losses on receivables for the nine months ended September 30, 2020 and 2019 amounted to P771.2 million and P\_\_\_\_\_ million, respectively. There were no reversal of provisions for credit losses on receivables for the nine months ended September 30, 2020 and 2019.

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## 12. Inventories

This account consists of inventories held as follows:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Subdivision land, condominium and residential units for sale	<b>₱38,453,326</b>	₱36,062,897
Raw materials	<b>13,329,311</b>	10,718,500
Spare parts, packaging materials and other supplies	<b>10,121,582</b>	10,901,829
Finished goods	<b>8,182,992</b>	9,155,597
Work-in-process	<b>1,932,080</b>	1,667,557
By-products	<b>3,321</b>	7,496
	<b>₱72,022,612</b>	₱68,513,876

Land held for future development previously presented as non-current asset includes land which the BOD has previously approved to be developed into residential development for sale. Before the adoption of PIC Q&A 2018-11, the classification was based on the Group's timing to start the development of the property. This was reclassified under inventories in the consolidated statement of financial position. Land with undetermined future use was retained to investment properties.

The Group recognized impairment losses on its inventories included under 'Impairment losses and others' amounting to ₱0.2 million and ₱2.4 million in 2020 and 2019, respectively (see Note 34).

Under the terms of the agreements covering liabilities under trust receipts totaling ₱4.3 billion and ₱8.7 billion as of September 30, 2020 and December 31, 2019, respectively, certain inventories which approximate the trust receipt payable, have been released to the Group under trust receipt agreement with the banks. The Group is accountable to these banks for the trusted merchandise or their sales proceeds.

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## 13. Other Current Assets

This account consists of:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Input value-added tax (VAT)	<b>₱9,042,782</b>	₱9,301,277
Advances to suppliers (Note 2)	<b>4,341,772</b>	4,859,810
Prepaid expenses	<b>3,198,701</b>	2,542,683
Restricted cash	<b>2,552,892</b>	2,533,018
Creditable withholding tax	<b>2,187,843</b>	1,785,546
Advances to lot owners and joint operations	<b>1,449,749</b>	2,142,571
Utility deposits	<b>8,193</b>	8,417
Others	<b>194,792</b>	27,312
	<b>₱22,976,724</b>	₱23,200,634

### Input VAT

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. Also included in the account are advances made to contractors related to construction activities and for the purchase of various aircraft parts and service maintenance for regular maintenance and restoration costs of aircraft. These are applied against progress and final billings which occur within one year from the date the advances arose.

#### 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.

#### *Interest in joint projects with Harbour Land Realty and Development Corp and Federal Land, Inc. (Jointly Controlled Operations)*

On February 7, 2011, the RLC entered into a joint venture agreement with Harbour Land Realty and Development Corp (HLRD) and Federal Land, Inc. (FLI) to develop a project called Axis Residences located along Pioneer Street in Mandaluyong City. The construction of the planned 2-phase residential condominium has commenced in March 2012. One tower of first phase was completed on September 2015.

The agreed contributions of the parties follow:

- a. RLC: Road lot valued at ₱0.1 billion and development costs amounting ₱1.4 billion
- b. FLI: Development costs amounting to ₱0.8 billion
- c. HLRD, an affiliate of FLI: Four (4) adjoining parcels of land valued at ₱0.7 billion located along Pioneer St., Mandaluyong City, 21,109 sqm.

Further, the sharing of saleable units (inventories) of real estate revenue, cost of real estate sales and any common expenses incurred, are as follows: RLC: 50.00%; FLI: 50.00%.

On December 6, 2017, RLC executed an addendum agreement with HLPDC and FLI to discontinue the development of Phase II.

The following were the agreements included in the addendum:

- a. The development of the Project shall be limited to Phase I;
- b. The discontinuance shall be without fault on either of the Parties. Accordingly, HLPDC and FLI shall reimburse RLC the amount of ₱193 million representing the non-development of four (4) towers of Phase II;
- c. Ownership and right of possession of the parcels of land corresponding to Phase II shall remain to be with HLPDC and shall be excluded from the provisions of the JVA.
- d. The perpetual right to use RLC's land contribution is limited to Phase I and to the adjacent properties owned by HLPDC, FLI or its affiliates.

#### Prepaid Expenses

This account consists of prepayments on rent, insurance, taxes, and office supplies.

#### Restricted cash

RLC has restricted cash - escrow which pertains to cash placed in escrow funds earmarked for the acquisition of parcels of land, pursuant to the memorandum of agreement (MOA) with various

sellers. Said amount shall be released to the sellers upon fulfillment of certain conditions set forth in MOA.

#### 14. Investments in Associates and Joint Ventures

Details of this account follow:

	September 30, 2020 (Unaudited)	December 31, 2019 Audited
Acquisition cost:		
Balance at beginning of year	P119,256,845	P117,629,555
Additional investments	216,762	1,544,790
Reclassification / transfer	–	82,500
Balance at end of year	<b>119,473,607</b>	119,256,845
Accumulated equity in net earnings:		
Balance at beginning of year	32,981,671	26,863,846
Equity in net earnings	4,559,847	13,357,511
Elimination of unrealized gains on downstream sales	(105,403)	(225,847)
Dividends received	(6,567,675)	(6,866,260)
Reclassification / transfer	–	(147,579)
Balance at end of year	<b>30,868,440</b>	32,981,671
Share in unrealized gain (loss) on financial assets at fair value thru other comprehensive income (FVOCI) of associates:		
Balance at beginning of year	34,851	(141,405)
Share in net changes in fair value of financial assets at FVOCI of associates	22,451	176,256
Balance at end of year	<b>57,302</b>	34,851
Share in remeasurements of the net defined benefit liability of associates:		
Balance at beginning of year	(584,450)	585,931
Share in net changes in remeasurements of the net defined benefit liability of associates	(620)	(1,170,381)
	<b>(585,070)</b>	(584,450)
Cumulative translation adjustment	258,181	300,106
	<b>150,072,460</b>	151,989,023
Less allowance for impairment losses	297,450	297,450
	<b>P149,775,010</b>	P151,691,573

The composition of the carrying value of the Group's investments in associates and joint ventures and the related percentages of ownership interest are shown below:

	Effective Ownership		Carrying Value	
	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
(In Million Pesos)				
<b>Associates</b>				
Domestic:				
Manila Electric Company (Meralco)	29.56	29.56	₱78,508.6	₱80,372.8
Global Business Power Corporation (GBPC)	30.00	30.00	11,635.5	11,979.7
Oriental Petroleum and Mining Corporation (OPMC)	19.40	19.40	758.8	758.3
G2M Solutions Philippines Pte. Ltd (G2M)	0.00	0.00	311.5	160.5
Luzon International Premiere Airport Development Corp. (LIPAD)	33.00	33.00	197.4	171.3
Cebu Light Industrial Park, Inc. (CLIP)	20.00	20.00	58.6	59.1
DHL Summit Solutions, Inc. (formerly Summit Supply Chain Solutions, Inc.)	50.00	50.00	1.3	30.0
1Aviation Groundhandling Services Corp.	33.25	27.05	–	30.7
Shang Robinsons Properties, Inc. (SRPI)	30.49	30.49	–	–
Foreign:				
United Industrial Corp., Limited (UICL)	37.05	37.05	54,669.9	54,303.4
Air Black Box (ABB)	10.18	10.15	43.7	43.7
Zyllem Pte. Ltd	13.33	13.33	43.2	50.8
			<b>146,228.5</b>	<b>147,960.3</b>
<b>Joint Ventures</b>				
Domestic:				
RHK Land Corporation	36.58	36.58	1,349.8	1,375.5
Robinsons DoubleDragon Corporation		40.07	674.2	613.3
RLC DMCI Property Ventures, Inc	30.49	30.49	358.1	361.3
SIA Engineering (Philippines) Corp. (SIAEP)	23.75	23.67	350.5	470.6
Philippine Academy for Aviation Training (PAAT)	33.93	33.82	229.9	237.7
Aviation Partnership (Philippines) Corp. (APPC)	33.25	33.14	203.2	247.5
MPIC-JGS Airport Holdings, Inc.	41.25	41.25	3.8	3.8
Vitasoy-URC, Inc (VURCI)	27.63	27.63	–	76.3
Danone Universal Robina Beverages, Inc. (DURBI)	27.63	27.63	–	–
Foreign:				
Proper Snack Foods Limited (PSFL)	27.68	27.68	334.3	312.8
Calbee-URC Malaysia Sdn. Bhd (CURM)	27.63	27.63	42.7	32.5
			<b>3,546.5</b>	<b>3,731.3</b>
			<b>₱149,775.0</b>	<b>₱151,691.6</b>

#### *Investment in 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.

### *GBPC*

On June 30, 2016, the Parent Company acquired 577,206,289 common shares of Global Business Power Corporation (GBPC) from Meralco Powergen Corporation (153,921,676 shares) and GT Capital Holdings, Inc. (423,284,613 shares) for a total cost of ₱11.8 billion. The acquisition represents 30.0% of GBPC's total outstanding common shares. GBPC is a company incorporated in the Philippines engaged in power generation.

### *OPMC*

OPMC is a company incorporated in the Philippines with the purpose of exploring, developing and producing petroleum and mineral resources in the Philippines. As an exploration company, OPMC operational activities depend principally on its service contracts with the government. 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 and listed 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.

Effective 2020, UICL is only required to file financial reports semi-annually instead of quarterly in accordance with the new rules of the Singapore Stock Exchange (SGX). Under the recent changes in the SGX-ST Listing Rules, a listed company would only be required to report its financials on a quarterly basis if:

- (1) it has received a disclaimer of opinion, adverse opinion or qualified opinion from its auditors on its latest financial statement; or
- (2) its auditors have expressed a material uncertainty relating to going concern on its latest financial statements; or
- (3) SGX RegCo has regulatory concerns with the listed company (e.g. where there have been material disclosure breaches or where the listed company faces issues that have material financial impact).

### 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.

#### *CLIFI*

The Group accounts for its investments in CLIFI as an associate as it owns 20.0% of the issued share capital of CLIFI. In 2015, CLIFI returned EHI's deposit for future stock subscription amounting to ₱5.0 million. As of September 30, 2020, the Group has deposit for future stock subscription in CLIFI amounting to ₱10.0 million. These represents 20.0% of CLIFI's proposed increase in authorize 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. On January 2020, the Parent Company paid the second installment since conditions were 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 60.00% 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 50.00% share on the net income/loss of PAAT. As such, the CAI recognizes equivalent 50.00% share in net income and net assets of the joint venture.

### *1Aviation*

Investment in 1Aviation refers to CAI's 40.00% investment in shares of the joint venture. The joint venture agreement indicates that the agreed ownership ratio is 40% for CAI and the remaining 60% shall be collectively owned by PAGSS and an individual. CAI recognizes 40% share in net income and net assets of the joint venture.

1Aviation is engaged in the business of providing groundhandling services for all types of aircraft, whether for the transport of passengers or cargo, international or domestic flights, private, commercial, government or military purposes to be performed at the Ninoy Aquino International Airport and other airports in the Philippines as may be agreed by the co-venturers.

### *ABB*

In May 2016, CAI entered into Value Alliance Agreement with other low cost carriers (LCCs), namely, Scoot Pte. Ltd, Nok Airlines Public Company Limited, CEBGO, and Vanilla Air Inc. The alliance aims to increase passenger traffic by creating interline partnerships and parties involved have agreed to create joint sales and support operations to expand services and products available to passengers. This is achieved through LCCs' investment in Air Black Box (ABB).

In November 2016, CAI acquired shares of stock in ABB amounting to ₱43.7 million. ABB is an entity incorporated in Singapore in 2016 to manage the ABB settlement system, which facilitates the settlement of sales proceeds between the issuing and carrying airlines, and of the transaction fee due to ABB.

The investment gave CAI a 15% shareholding proportion to ABB which is classified as an investment in an associate and is accounted for at equity method. ABB started its operations in 2018, the investment is recognized at cost and is subject to any remeasurement within the measurement period. As of September 30, 2020 and December 31, 2019, the net carrying amount of the Group's investment with ABB amounted to ₱43.7 million.

### *SIAEP and APPC*

SIAEP and APPC are jointly controlled entities which were established for the purpose of providing line, light and heavy maintenance services to foreign and local airlines, utilizing the facilities and services at airports in the Philippines, as well as aircraft maintenance and repair organizations.

SIAEP was incorporated on July 27, 2008 and started commercial operations on August 17, 2009. APPC was incorporated on May 24, 2005 and started commercial operations on July 1, 2005.

### *PAAT*

Investment in PAAT pertains to CAI's 60.00% 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 50.00% share on the net income/loss of PAAT. As such, the CAI recognizes equivalent 50.00% share in net income and net assets of the joint venture.

PAAT was created to address the Group's training requirements and to pursue business opportunities for training third parties in the commercial fixed wing aviation industry, including other local and international airline companies. PAAT was formally incorporated on January 27, 2012 and started commercial operations in December 2012.

#### *URC Beverages Ventures, Inc.*

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, well as pre-termination of the right to manufacture, sell, and distribute Hunt's products. 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.

On January 7, 2019, the SEC approved the amendment of the HURC's Articles of Incorporation for the change in its corporate name from Hunt - Universal Robina Corporation to URC Beverage Ventures, Inc. (UBVI).

#### *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'blue" 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.

#### *VURCI*

On October 4, 2016, URC entered into a joint venture agreement with Vita International Holdings Limited, a corporation duly organized in Hong Kong to form VURCI, a corporation duly incorporated and organized in the Philippines to manufacture and distribute food products under the "Vitasoy" brand name, which is under exclusive license to VURCI in the Philippines. In 2017, URC made additional subscriptions to the unissued authorized capital stock of VURCI consisting of 12,600,000 common shares for a total cost of ₱126.0 million.

#### *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 savoury snack products. Total consideration amounted to MYR2.7 million (₱34.3 million).

*Shang Robinsons Properties, Inc (SRPI)*

On November 13, 2017, the Parent Company'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 SRPI, 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. SRPI also plans to pursue other development projects.

The investment in the SRPI is accounted as an investment in joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

In accordance with the joint venture agreement with SPI, RLC agrees to extend loan to SRPI, at fair and commercial rates comparable to loans extended by third party banks and financial institutions, an amount of ₱1,000 million annually starting April 1, 2019 up to April 1, 2022. As of September 30, 2020 and December 31, 2019, RLC has already extended a loan to SRPI amounting to ₱1,000 million.

*RHK Land Corporation (RHK Land)*

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 RHK Land, 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. RHK Land also plans to pursue other development projects.

On October 2018, RLC entered into a Shareholder Loan Agreement with RHK Land to make available a loan facility of ₱1.4 billion which RHK Land may draw from time to time subject to the terms and conditions set out in the agreement.

*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, RLC 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.

The investments in JVCs are accounted as joint venture using equity method of accounting because the contractual arrangement between the parties establishes joint control.

*DHL Summit 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.

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## 15. Other Noncurrent Assets

This account consists of:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Advances to suppliers - net of current portion	<b>₱5,169,716</b>	₱5,493,256
Deferred tax assets	<b>3,615,189</b>	2,462,526
Advances to lot owners - net of current portion	<b>1,276,179</b>	1,886,053
Security and miscellaneous deposits	<b>1,155,331</b>	1,058,800
Utility deposits	<b>726,522</b>	746,384
Others	<b>2,253,065</b>	1,748,350
	<b>₱14,196,002</b>	₱13,395,369

Security Deposits

Security deposits include deposits provided to lessors and maintenance providers for aircraft under operating lease.

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 September 30, 2020, this account also includes pre-

purchase of Airbus A330 life limited engine parts.

Utility Deposits

Utility deposits consist primarily of bid bonds and meter deposits.

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.

Others

Others include deferred input VAT, prepaid rent, deposits to various joint venture partners, and repossessed chattels. 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.

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**16. Accounts Payable and Accrued Expenses**

This account consists of:

	<b>September 30, 2020</b>	December 31, 2019
	<b>(Unaudited)</b>	(Audited)
Deposit liabilities	<b>₱77,446,945</b>	₱82,445,508
Trade payables	<b>27,082,380</b>	32,659,165
Accrued expenses	<b>24,482,611</b>	18,520,442
Refunds and travel funds payable	<b>5,523,617</b>	94,904
Airport and other related fees payable	<b>2,432,751</b>	4,366,215
Bills payable	<b>1,417,865</b>	2,040,506
Output VAT	<b>1,400,380</b>	1,627,771
Withholding taxes payable	<b>674,166</b>	418,311
Dividends payable	<b>567,017</b>	43,288
Due to related parties	<b>116,648</b>	114,835
Other payables	<b>6,338,729</b>	3,996,427
	<b>₱147,483,109</b>	₱146,327,372

Deposit Liabilities

Deposit liabilities represent the savings, demand and time deposit liabilities of RBC and LSB. Remaining deposit liabilities of the RBC and LBC bear annual fixed interest rates ranging from nil to 3.5% in 2020 and 2019.

As of September 30, 2020, RBC and LSB are in compliance with the regulations.

Long-Term Negotiable Certificates of Deposit (LTNCD)

On May 4, 2017, the BSP approved RBC's issuance of the ₱3.00 billion LTNCD. On June 16, 2017, RBC listed its LTNCD issuance amounting to ₱4.18 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 ₱1.78 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 was used to diversify RBC’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.

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.

Refunds and Travel funds payable

In light of the significant increase in flight cancellations due to the COVID-19 outbreak and consequent grounding of the Group’s commercial operations, customers were given options for their cancelled flights, which included free rebooking, full cash refund, or conversion to a full travel fund. which is a virtual wallet equivalent to the amount paid for an existing booking. A travel fund is valid for two years and can be used as payment for future bookings.

Refunds payable, which pertain to cash due to be returned to customers, amounted to ₱2.4 billion and ₱70.2 million as of September 30, 2020 and December 31, 2019, respectively. Travel funds payable which refer to balances which can be applied by customer as payment for future bookings amounted to ₱3.1\_ billion and ₱24.7 million as of September 30, 2020 and December 31, 2019, respectively.

Other Payables

Other payables consist of management bonus and other non-trade payables.

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**17. Other Current Liabilities**

This account consists of:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Current portion of lease liabilities	<b>₱6,759,408</b>	₱5,784,085
Unearned transportation revenue	<b>4,507,048</b>	11,881,600
Derivative liabilities	<b>752,022</b>	419,103
Advances from agents and others	<b>611,476</b>	567,139
Customer’s deposits	<b>173,073</b>	408,605
Deposit from lessees (Note 19)	<b>3,036,566</b>	2,928,599
	<b>₱15,839,593</b>	₱21,989,131

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).

#### 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.

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

### Short-term Debts

Short-term debts consist of:

	September 30, 2020	December 31, 2019
<b>Parent Company:</b>		
Philippine Peso - with interest rate of 4.05% to 5.25% in 2020 and 4.7% in 2019	P-	P2,000,000
Foreign currency - with interest rate of 2.4% in 2019	-	7,029,404
	-	9,029,404
<b>Subsidiaries:</b>		
Foreign currencies - unsecured with interest rates ranging from 1.6% to 3.14% in 2020 and 2.2% to 4.4% in 2019	32,326,298	9,822,360
Philippine Peso - with interest rates of 4.05% to 6.2% in 2020 and 4.7% to 4.9% in 2019	8,870,298	35,195,646
	<b>41,196,596</b>	<b>45,018,006</b>
	<b>P41,196,596</b>	<b>P54,047,410</b>

### Long-term Debts

Long-term debts (net of debt issuance costs) consist of:

	Maturities	Interest Rates	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	Condition
<b>Parent Company:</b>					
<b>Fixed Rate Retail Bonds:</b>					
<b>P30.0 billion Fixed Rate Retail Bonds</b>					
			<b>P5,309,655</b>	P5,303,583	Unsecured
			<b>175,680</b>	175,550	- do -
<b>Term Loans</b>					
			<b>4,990,500</b>	4,986,693	- do -
			<b>4,885,423</b>	4,932,841	- do -
			<b>9,957,953</b>	9,946,897	- do -
			<b>4,978,797</b>	4,973,325	- do -
			<b>4,970,000</b>	4,964,870	- do -
			<b>6,958,176</b>	6,950,883	- do -
			<b>3,971,342</b>	-	- do -
			<b>46,197,526</b>	42,234,642	
<b>Subsidiaries:</b>					
<b>Foreign currencies:</b>					
<b>JGSPL</b>					
			<b>29,552,699</b>	32,455,022	Guaranteed
			<b>28,954,203</b>	-	

(Forward)

			September 30, 2020	December 31, 2019	
	Maturities	Interest Rates	(Unaudited)	(Audited)	Condition
<b>CAI</b>					
USD Commercial loan from foreign banks	2025	3% to 5%; 2% - 5% (US\$ Libor)	<b>28,536,203</b>	30,470,347	- do -
JPY Commercial loan	2029	Less than 1.00% (JPY LIBOR)	<b>7,837,016</b>	8,424,916	
<b>URC</b>					
NZ\$395.0 million term loan	2023	NZ 1.41% (BKBM+1.10%) AU 1.4015% (BBSY)	<b>12,547,451</b>	13,296,757	Guaranteed
AU\$484.2 million term loan	2021	BID+1.25%)	<b>16,757,425</b>	17,089,321	
			<b>124,184,997</b>	101,736,363	
<b>Philippine Peso:</b>					
<b>RLC</b>					
₱10.6 billion loan facility	2022	4.80%	<b>10,612,871</b>	10,601,369	Unsecured
₱1.4 billion loan facility	2025	4.93%	<b>1,358,108</b>	1,357,155	- do -
₱4.5 billion loan facility	2027	4.95%	<b>4,469,397</b>	4,472,866	- do -
₱7.0 billion loan facility	2024	4.75%	<b>6,701,250</b>	6,837,576	- do -
₱6.5 billion loan facility	2021	3.83%	<b>6,494,449</b>	6,489,197	- do -
₱5.0 billion loan facility	2023	3.89%	<b>4,949,789</b>	4,957,109	- do -
₱6.0 billion loan facility	2025	4.75%	<b>5,957,130</b>	-	
₱12.8 billion loan facility	2023	3.68%	<b>12,614,499</b>	-	
₱427.2 million loan facility	2025	3.8%	<b>422,163</b>	-	
<b>JGSPC</b>					
₱19.5 billion term loan	2024 -2025	Floating (1.94% to 2.9%)	<b>27,508,000</b>	19,508,000	
<b>JGSOC</b>					
₱2.5 billion term loan	2024	6.64% and 6.62%	<b>2,492,000</b>	2,492,000	
<b>CAI</b>					
Commercial loans	2026	5%-7% (BVAL)	<b>16,290,236</b>	18,249,258	Guaranteed
			<b>99,869,892</b>	74,964,530	
			<b>270,252,415</b>	218,935,535	
Less current portion			<b>35,487,973</b>	6,819,094	
			<b>₱234,764,442</b>	₱212,116,441	

The details of the Group's short-term and long-term debt follow:

#### Subsidiary's peso short-term

In 2020, CAI entered into an unsecured, Philippine peso-denominated short term loan amounting to ₱4.4 billion. The loan was obtained to support the working capital requirements of the Group. Interest expense incurred from these loans amounted to ₱122.6 million and nil in 2020 and 2019, respectively.

#### Subsidiaries' Foreign Currency Loans

##### *JGSHPL 4.375% Senior Unsecured Notes Due 2023*

On January 24, 2013, JGSHPL issued US\$750.0 million, 4.375% senior unsecured notes due 2023. The notes are unconditionally and irrevocably guaranteed by the Parent Company.

##### *JGSHPL 4.125% Notes Due 2030*

On July 9, 2020, JGSHPL issued USD\$600.0 million, 4.125% notes due 2030. The notes are guaranteed by the Parent Company.

#### *CAI's US Dollar Commercial Loan From Foreign Banks*

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 the supplier 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.

In 2020, the Group 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 six to 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 September 30, 2020 and December 31, 2019, the total outstanding balance of the US dollar commercial loans amounted to ₱28.5 billion (US\$588.4 million) and ₱30.5 billion (US\$601.8 million), respectively. Interest expense amounted to ₱695.3 million and ₱980.0 million in 2020 and 2019, respectively.

#### *CAI's Japanese Yen 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 September 30, 2020 and December 31, 2019, the total outstanding balance of the Japanese yen commercial loans amounted to ₱7.8 billion (¥17.1 billion) and ₱8.4 billion (¥18.2 billion). Interest expense amounted to ₱17.3 million and ₱23.6 million in 2020 and 2019, respectively.

The Group is required to comply with affirmative and negative covenants until termination of loans. As of September 30, 2020 and December 31, 2019, the Group is not in breach of any loan covenants.

The Group is not in breach of any terms on the 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 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.

## 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 bond. The bond was issued in three series: (1) Five-year bond amounting to ₱24.5 billion fixed at 5.2317% due 2019; (2) Seven-year bond amounting to ₱5.3 billion fixed at 5.2242% due 2021; and (3) Ten year bond amounting to ₱176.3 million fixed at 5.3% due 2024. Interest is calculated on a 30/360-day count basis and are 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.

### *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.

### *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.

### *Parent Company ₱4.0 Billion Term Loan with BDO due in August 2025*

On June 30, 2020, the Parent Company borrowed ₱4.0 billion under Term Loan Facility Agreement with BDO with a fixed rate at 4.75% per annum and shall be payable quarterly in arrears.

### *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 ₱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.

*RLC ₱7.0 Billion Term Loan due in March 2024*

On March 15, 2017, RLC borrowed ₱7.0 billion 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.

*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 ₱6.0 Billion Term Loan due in June 2025*

On June 30, 2020, RLC borrowed ₱6.0 billion under Term Loan Facility Agreements with BDO Unibank, Inc. The loan was released on June 30, 2020 which bears 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.

*RLC Three-year “Series C Bonds” maturing on July 17, 2023 and Five-Year “Series D Bonds” maturing on July 17, 2025.*

On July 17, 2020, RLC issued its “Series C Bonds” amounting to ₱12,763 million and “Series D Bonds” amounting to ₱427 million constituting direct, unconditional, unsecured and unsubordinated peso-denominated obligations of RLC and shall at all times rank pari passu and ratably without any preference or priority amongst themselves and at least pari passu with all other present and future unsubordinated and unsecured obligations of RLC, other than obligations preferred by law. The net proceeds of the issue shall be used by RLC to: (i) partially fund the capital expenditure budget of the Company for calendar years 2020 and 2021; (ii) repay short-term loans

maturing in the second half of calendar year; and (iii) fund general corporate purposes including, but not limited to, working capital. The bonds have been rated PRS Aaa by Philippine Rating Services Corporation (PhilRatings). Interest on the bonds shall be calculated on a 30/360-day count basis and shall be paid semi-annually in arrears on January 17 and July 17 of each year at which the bonds are outstanding.

#### *CAI Philippine Peso Commercial Loans*

From 2016 to 2017, the Group 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, the Group 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.

The terms of the commercial loans 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 September 30, 2020 and December 31, 2019, the total outstanding Philippine Peso commercial loans amounted to ₱16,290.2 million and ₱18,249.3 million, respectively. Interest expense incurred from these loans amounted to ₱504.0 million and ₱947.2 million in 2020 and 2019, respectively.

The commercial loans of the Group are secured by the related aircraft. The Group is required to comply with affirmative and negative covenants until termination of loans. As of September 30, 2020 and December 31, 2019, the Group is not in breach of any loan covenants.

#### 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 ₱5.0 Billion, ₱5.0 Billion, ₱10.0 Billion, ₱5.0 Billion, ₱5.0 Billion, ₱4.0 Billion and ₱7.0 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

For 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 its year end December 31 and consolidated interim financial statements as of September 30. These loans were not guaranteed by the Parent Company.

For JGSPL's US\$750.0 million Senior Unsecured Notes due in 2023, 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 the NZ and AU Term loans, these loans contain negative covenants which include, among others, maintenance of a 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 September 30, 2020 and December 31, 2019.

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## 19. Other Noncurrent Liabilities

This account consists of:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Deposit liabilities - net of current portion	<b>₱25,586,664</b>	₱21,550,058
Lease liabilities	<b>16,213,800</b>	15,320,070
ARO	<b>6,096,959</b>	6,233,061
Deposit from lessees - net of current portion	<b>3,250,918</b>	3,171,545
Pension liabilities	<b>2,971,899</b>	2,693,911
Deferred revenue on rewards program	<b>1,059,745</b>	1,234,903
Derivative liabilities	<b>15,563</b>	13,507
Others	<b>1,299,385</b>	913,374
	<b>₱56,494,933</b>	₱51,130,429

### Deposit Liabilities

Deposit liabilities represent time deposit liabilities of RBC and LSB with maturities of beyond 12 months from reporting date.

### ARO

CAI is legally required under certain lease contracts to restore certain leased passenger aircraft to stipulated return conditions and to bear the costs 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 certain redelivery costs at the end of the operating aircraft lease.

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.

### Deposits from Lessees

Deposits from lessees (including the current portion shown in Note 17) represent cash received from tenants representing three to six months' rent which shall be refunded to tenants at the end of 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 deposits from lessees were discounted using PDST-F rate plus 2.0% spread.

### 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.

### Deferred Revenue on Rewards Program

This account pertains to estimated liability under the Getgo lifestyle rewards program.

The rollforward analyses of deferred revenue follow:

	2020	2019
Balance at beginning of year	<b>₱1,234,903</b>	₱954,057
Add: Estimated liability on issued points	-	924,714
Subtotal	<b>1,234,903</b>	1,878,771
Less: Estimated liability on redeemed points	<b>27,281</b>	246,829
Estimated liability on expired points	<b>147,877</b>	397,039
Balance at end of year	<b>₱1,059,745</b>	₱1,234,903

### 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.

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## 20. Equity

Details of the Parent Company's authorized capital stock as of September 30, 2020 and December 31, 2019 follow:

	Par Value	Shares	Amount
Common shares	₱1.00	12,850,800	₱12,850,800
Preferred voting shares	0.01	4,000,000	40,000
Preferred non-voting shares	1.00	2,000,000	2,000,000
		18,850,800	₱14,890,800

As of September 30, 2020 and December 31, 2019, the paid-up capital of the Group consists of the following:

Capital stock:

Common shares - ₱1 par value	<b>₱7,162,842</b>
Preferred voting shares - ₱0.01 par value	<b>40,000</b>
	<b>7,202,842</b>
Additional paid-in capital	<b>23,553,025</b>
Total paid-up capital	<b>₱30,755,867</b>

### Preferred voting shares

The preferred voting shares have, among others, the following rights, privileges and preferences:

- 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.
- The shares shall be non-redeemable.
- 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	–	P1.00	P–	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 common shares	1.00	4.40	–	1,428,175 common shares
June 30, 1994	Conversion of convertible bonds into common shares	428,175 common shares	1.00	13.75	–	3,725 common shares
July 3, 1998	Stock rights offering (1:2)	2,060,922 common shares	1.00	2.00	–	2,060,922 common shares

### 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:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
(a) Gross debt		
Short-term debt (Note 18)	<b>₱41,196,596</b>	₱54,047,410
Current portion of long-term debt (Note 18)	<b>35,487,973</b>	6,819,094
Long-term debt, net of current portion (Note 18)	<b>234,764,442</b>	212,116,441
Derivative liabilities (Note 8)	<b>15,563</b>	432,611
	<b>₱311,464,574</b>	₱273,415,556
(b) Capital	<b>₱411,315,502</b>	₱408,647,142
(c) Debt-to-capital ratio (a/b)	<b>0.76:1</b>	0.67:1

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

Under existing BSP regulations, the determination of RBC'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 RBC 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 nonfinancial 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)
125%	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%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.0% to 1.5% (interest rate-related) and from 1.0% to 7.5% (exchange rate-related), depending on the residual maturity of the contract. For CLNs and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

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% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos.709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1

and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

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% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25% on the Group’s real estate exposure. These limits shall be complied with at all times.

On October 29, 2014, the Bangko Sentral ng Pilipinas (BSP) issued amendments to Circular No. 854, *Minimum Capitalization of Banks*. Based on the amendments, RBC as a commercial bank with more than 100 branches, is required to increase its capitalization to ₱15.0 billion.

RBC has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

As of September 30, 2020, RBC was in compliance with the required CAR.

#### Restricted Retained Earnings

##### *Parent Company*

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.

As of September 30, 2020, 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:

	<b>Subsidiary</b>	<b>Amount</b>	<b>Settlement</b>
<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 lesser than 1.0:1.0; and (b) the Group’s debt-to-equity ratio of not greater than 2.0:1.0. A certain portion of the Parent Company’s retained earnings is restricted to maintain these financial ratios.

##### *RLC*

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 and December 12, 2018, CAI's BOD appropriated ₱26.0 billion and ₱22.0 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 September 30, 2020 and December 31, 2019 will be used for the settlement of aircraft and engine lease commitments in 2020.

As of September 30, 2020 and December 31, 2019, CAI has appropriated retained earnings totaling ₱26.0 billion.

#### *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 2020 and 2019, RBC's BOD approved to appropriate reserves for trust reserves amounting to nil.

In 2019, RBC's BOD approved to appropriate reserves for expected credit losses amounting to ₱498.7, 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 ₱106.1 billion and ₱113.8 billion as of September 30, 2020 and December 31, 2019, 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.

#### 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. 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.

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## 21. 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. Robinsons Bank Corporation manages the plan based on the mandate as defined in the trust agreement.

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.

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## 22. 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

	<b>September 30, 2020</b> (Unaudited)	September 30, 2019 (Unaudited)
Income attributable to equity holders of common shares of the Parent Company	<b>₱123,847</b>	₱21,073,533
Weighted average number of common shares	<b>7,162,842</b>	7,162,842
Basic/diluted earnings per share	<b>₱0.02</b>	₱2.94

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## 23. 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.

The Parent Company has signed various financial guarantee agreements with third parties for the short-term and long-term loans availed by its subsidiaries (see Note 18). 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.

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 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.

### 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.

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## 24. 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 some requirements and are entitled to certain tax and non-tax incentives which are considered in the computation of the provision for income tax.

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## 25. Contingent Liabilities

### 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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## 26. Subsequent Events

On March 16, 2020, the President of the Philippines issued Proclamation No. 929 declaring a state of calamity throughout the Philippines due to COVID-19 which resulted to the imposition of an Enhanced Community Quarantine (ECQ) throughout Luzon starting midnight of March 16, 2020. The National Capital Region (NCR) exited the ECQ on May 15, 2020 and together with other high-risk areas were placed under Modified Enhanced Community Quarantine (MECQ), before finally transitioning to General Community Quarantine (GCQ) beginning June 1, 2020. The other local government units (LGUs) were also placed in different community quarantine levels as determined by their respective local governments. On August 2, 2020, the NCR together with other high-risk areas were reverted to a Modified Enhanced Community Quarantine (MECQ) starting midnight of August 4, 2020 up to August 18, 2020.

Under the MECQ, more businesses are allowed to operate with 50% of their employees on-site. Under the GCQ, certain industries are permitted to operate 100% but are required to follow some restrictions. The Group has ensured that it fully complies with all the government-mandated measures to contain the COVID-19 outbreak in the country. While these have caused disruptions to certain areas of the Group's diverse portfolio of businesses and economic activities, the shift from ECQ to MECQ and then to GCQ have improved the business outlook moving forward:

- Travel restrictions resulted to significant reduction in air travel demand for the Air transportation segment. Passenger flights resumed only on June 1, 2020, but are limited in accordance with government guidelines.
- The Real estate and hotels segment temporarily closed down some of its commercial properties and suspended the construction of its residential properties. Only essential business establishments within its malls such as supermarkets, pharmacies and banks remain open for limited operating hours. These restrictions were eased upon transition to GCQ, and more commercial properties and business establishments, including those considered as non-essential, has started to reopen.

- The Foods, agro-industrial and commodities businesses' selling operations continue to operate its business at normal levels across different geographic locations where it has facilities, in both domestic and international markets. The segment remains vigilant on the potential impact of the outbreak on its supply chain and consumer demand.
- 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.
- 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.

In compliance with the notice of the Securities and Exchange Commission dated March 12, 2020, the Group disclosed to the public the measures it has undertaken to manage the risk of COVID-19 in its CY2019 Annual report. It shared that it has an existing crisis management plan and primary operating measures established in the areas of: (1) Employee Health and Safety, (2) Public Health and Safety, and (3) Business Continuity. The several austerity measures undertaken by the Group to mitigate the impact of this outbreak to its businesses are as follows:

- 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.
- 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.
- Rationalization of OPEX and CAPEX plans, including reduction of non-essential expenses, deferment of certain expansion projects and freeze hiring.
- These measures were timely adjusted to correspond to the shift from ECQ to MECQ and eventually to GCQ.

#### Declaration of Stock Dividend and Amendment of Articles of Incorporation (AOI)

The stockholders of the Parent Company in a special stockholders meeting held on October 20, 2020 approved the following:

1. The declaration of a stock dividend equivalent to 5% of the total issued and outstanding shares of the Corporation; and
2. The amendment of the AOI in order to re-classify the preferred non-voting shares into preferred voting shares and modify the dividend features of the preferred voting shares. The amendment of the AOI is still subject to SEC approval.

#### Acquisition of Shares held by SIA Engineering Company Limited (SIAEC) in A-Plus

On October 26, 2020, CAI signed a Share Sale and Purchase Agreement (SPA) with SIAEC for the acquisition of SIAEC's entire 51% shareholding in A-Plus. The consideration to be paid is US\$5,607,378 and will consist of a one-time payment in cash. The consideration was arrived at after arm's length negotiations on a willing-buyer, willing-seller basis and took into account, inter alia, the net asset value and financial performance of A-Plus. Based on CAI's quarterly financial

statements ended June 30, 2020, net asset value of A-Plus was ₱447.5 million, of which SIAEC's 51% ownership is ₱228.2 million or US\$4.5 million.

Completion of the acquisition is subject to the satisfaction (or waiver) of conditions precedent which are customary conditions for transactions of this type, including all necessary approvals from relevant government bodies, statutory bodies, authorities, commissions, tribunals, agencies or entities and set out in the SPA. On November 3, 2020, the Parent Company and SIAEC has signed the Deed of Absolute Sale of Shares for this transaction making A-Plus a wholly owned subsidiary of the Parent Company.

The fair value of CAI's 49% interest in A-Plus immediately prior to acquisition amounted to ₱269.5 million. The Group recognized ₱54.8 million from re-measurement of its investment in A-Plus at fair value immediately prior to acquisition.

#### Sale of Shares held by CAI in SIAEP

On October 26, 2020, CAI also entered into an SPA with SIAEC to divest CAI's 35% shareholding in SIAEP. This divestment is in line with CAI's strategy to streamline its fleet management and rationalize its aircraft base maintenance, repair and overhaul offerings to optimize its operational efficiency and further strengthen its core competencies. The consideration to be received is US\$7,740,000 via a one-time cash receipt. The consideration was arrived at after arm's length negotiations on a willing-buyer, willing-seller basis and took into account, inter alia, the net asset value and financial performance of SIAEP. Based on CAI's quarterly financial statements ended June 30, 2020, the net carrying value of its 35% investment in SIAEP was ₱380.3 million, or US\$7.5 million. The transaction is also subject to the satisfaction (or waiver) of conditions precedent which are customary conditions for transactions of this type, such as but not limited to all necessary approvals from relevant government bodies, statutory bodies, authorities, commissions, tribunals, agencies or entities and set out in the SPA. On November 3, 2020, CAI and SIAEC has signed the Deed of Absolute Sale of Shares for this transaction, thus, the Parent Company no longer has any equity interest in SIAEP.

**JG SUMMIT HOLDINGS, INC. AND SUBSIDIARIES**  
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATOR**

The following are the major financial ratios that the Group monitors in measuring and analyzing its financial soundness:

Ratio	Formula	September 30, 2020	December 31, 2019
<b>Liquidity:</b>			
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.00	0.96
<b>Solvency:</b>			
Debt-to-equity ratio/ Gearing ratio	$\frac{\text{Total financial debt}^*}{\text{Total equity}^{**}}$ <i>* short-term debt and long-term debt including current portion</i> <i>** equity holders + non-controlling interests</i>	0.76	0.67
Net debt-to-equity ratio	$\frac{\text{Total financial debt less total cash}^{***}}{\text{Total equity}^{**}}$ <i>*** including financial assets at FVTPL and FVOCI (excluding RBC cash, financial assets at FVTPL and FVOCI)</i>	0.56	0.52
Asset-to-equity ratio	$\frac{\text{Total assets}}{\text{Total equity}^{**}}$	2.38	2.27

Ratio	Formula	Nine months ended September 30	
		2020	2019
<b>Profitability:</b>			
Operating income margin	$\frac{\text{Operating income}}{\text{Total revenues}}$	0.06	0.18
<b>Leverage:</b>			
Interest rate coverage ratio	$\frac{\text{Operating income plus depreciation and amortization}}{\text{Financing costs and other charges}}$	4.73	7.51