AyalaLand Logistics Holdings Corp. and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018
and Years Ended December 31, 2019, 2018
and 2017

and

Independent Auditors' Report

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
AyalaLand Logistics Holdings Corp.

Opinion

We have audited the consolidated financial statements of AyalaLand Logistics Holdings Corp. (formerly *Prime Orion Philippines, Inc.*; the Parent Company) and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group adopted Philippine Financial Reporting Standard (PFRS) 16, *Leases*, under the modified retrospective approach which resulted to significant changes in the Group's accounting policy for leases. The Group's adoption of PFRS 16 is significant to our audit because the Group's recorded amounts are material to the consolidated financial statements and adoption involves application of significant judgment and estimation in determining the lease term and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets and lease liability amounting to ₱1,353.87 million and ₱1,694.12 million, respectively, as at January 1, 2019, and the recognition of depreciation expense and interest expense of ₱64.76 million and ₱151.19 million, respectively, for the year ended December 31, 2019.

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

Audit Response

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

We inspected lease agreements existing prior to the adoption of PFRS 16 and new lease agreements, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of financial impact of PFRS 16, including the transition adjustments.

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

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

Provisions and Contingencies

The Group is involved in certain disputes for which the Group has recognized provisions for probable expenses, which may be incurred, and disclosed relevant information about such contingencies. This matter is important to our audit because the assessment of the potential outcome or liability involves significant management judgment and estimation.

The Group's disclosures about provisions and contingencies are included in Note 28 to the consolidated financial statements.

Audit Response

We reviewed management's assessment on whether any provisions should be recognized, and the estimation of such amounts and performed inspection of relevant supporting documents. We discussed with management the status of the disputes. We also reviewed the disclosures on provisions in the Group's consolidated financial statements.

Adequacy of Allowance for Credit Losses

The Group uses a provision matrix to calculate ECLs for trade receivables except for receivables from real estate sales. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The Group uses vintage analysis approach to calculate ECLs for receivables from real estate sales. The vintage analysis accounts for expected losses by calculating the cumulative loss rates of a given loan pool. Allowance for credit losses and the provision for credit losses as of and for the year ended December 31, 2019 amounted to ₱75.37 million and ₱38.02 million, respectively. The use of ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; determining the method to estimate lifetime ECL; defining default; determining assumptions to be used in the ECL model such as the timing and amount of expected net recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

The disclosures in relation to allowance for credit losses using the ECL model are included in Note 5 to the financial statements.

Audit Response

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

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place (c) tested historical loss rates by inspecting historical recoveries and write-offs; (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices.

Further, we checked the data used in the ECL models, such as the historical aging analysis by reconciling data from source system reports to the loss allowance analysis. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance worksheet. We assessed the assumptions used where there are missing or insufficient data. We also recalculated impairment provisions.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is
Carlo Paolo V. Manalang

SYCIP GORRES VELAYO & CO.

Carlo Paolo V. Manalang

Carlo Paolo V. Manalang
Partner
CPA Certificate No. 111947
SEC Accreditation No. 1625-A (Group A),
March 28, 2017, valid until March 27, 2020
Tax Identification No. 210-730-804
BIR Accreditation No. 08-001998-127-2019,
November 27, 2019, valid until November 26, 2022
PTR No. 8125259, January 7, 2020, Makati City

February 19, 2020

AYALALAND LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Prime Orion Philippines, Inc.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands)

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 30)	**₱177,592**	₱220,145
Short-term investments (Notes 4 and 30)	**–**	43,489
Receivables - current (Notes 5 and 30)	**2,004,828**	1,574,864
Real estate held for sale and development (Note 6)	**2,085,051**	1,289,245
Financial assets at fair value through other comprehensive income (Notes 7 and 30)	**644,746**	651,964
Amounts owed by related parties (Notes 17 and 30)	**788,507**	936,548
Financial assets at fair value through profit or loss (Notes 8 and 30)	**4,479**	4,519
Other current assets (Note 9)	**977,701**	599,802
Total Current Assets	**6,682,904**	5,320,576
Noncurrent Assets		
Receivables - net of current portion (Notes 5 and 30)	**480,274**	44,955
Right-of-use asset (Note 27)	**1,326,964**	–
Investment properties (Note 10)	**10,254,507**	6,833,060
Property and equipment (Note 11)	**37,909**	42,249
Software costs (Note 12)	**1,417**	2,873
Net pension assets (Note 23)	**11,767**	17,390
Deferred income tax assets - net (Note 24)	**24,292**	14,197
Other noncurrent assets (Notes 13 and 30)	**548,475**	699,093
Total Noncurrent Assets	**12,685,605**	7,653,817
	₱19,368,509	₱12,974,393
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 14, 28 and 30)	**₱2,773,207**	₱1,484,416
Current portion of:		
Rental and other deposits (Notes 15 and 30)	**517,864**	512,036
Lease liabilities (Note 27)	**30,973**	–
Deferred rent income (Note 27)	**2,023**	9,352
Amounts owed to related parties (Notes 17 and 30)	**2,317,179**	234,268
Total Current Liabilities	**5,641,246**	2,240,072
Noncurrent Liabilities		
Rental and other deposits - net of current portion (Notes 15 and 30)	**234,821**	152,860
Lease liabilities - net of current portion (Note 27)	**1,702,477**	–
Deferred rent income - net of current portion (Note 27)	**6,873**	10,235
Deferred income tax liabilities - net (Note 24)	**125,220**	215,301
Subscriptions payable (Notes 18 and 30)	**481,675**	481,675
Total Noncurrent Liabilities	**2,551,066**	860,071
Total Liabilities	**8,192,312**	3,100,143

(Forward)

	December 31	
	2019	2018
Equity (Note 16)		
Equity attributable to equity holders of the parent		
Paid-in capital	**₱6,173,305**	₱5,889,195
Additional paid-in capital	**5,999,868**	5,772,959
Retained earnings	**1,065,378**	619,841
Revaluation increment (Note 10)	**203,836**	217,986
Loss on remeasurement of retirement benefits (Note 23)	**(50,507)**	(44,313)
Unrealized loss on financial assets at fair value through other comprehensive income (Note 7)	**(587,704)**	(579,379)
Shares held by a subsidiary	**(144,377)**	(1,279,026)
Equity reserves (Note 29)	**(1,598,198)**	(1,351,940)
	11,061,601	9,245,323
Non-controlling interests (Notes 1 and 16)	**114,596**	628,927
Total Equity	**11,176,197**	9,874,250
	₱19,368,509	₱12,974,393

See accompanying Notes to Consolidated Financial Statements.

AYALALAND LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Prime Orion Philippines, Inc.)

CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share)

	Years Ended December 31		
	2019	2018	2017
REVENUE			
Sale of electricity (Note 26)	**₱2,395,977**	₱1,734,957	₱–
Real estate sales (Note 26)	**1,809,120**	785,828	–
Rental (Note 10)	**1,085,930**	843,147	501,824
Insurance premiums and commissions - net	**–**	1,633	108,656
Others	**54,954**	4,386	–
	5,345,981	3,369,951	610,480
COSTS AND EXPENSES			
Cost of purchased power and services	**2,303,069**	1,689,281	–
Cost of real estate sold (Notes 6 and 21)	**1,103,637**	320,220	–
Cost of rental services (Notes 10 and 21)	**568,137**	615,841	351,728
Operating expenses (Note 19)	**291,803**	154,040	248,721
Commission and other underwriting expenses	**592**	4,347	92,757
	4,267,238	2,783,729	693,206
OTHER INCOME (CHARGES)			
Reversal of probable losses (Note 28)	**32,280**	59,070	–
Interest income and bank charges - net (Note 22)	**1,303**	31,572	37,414
Interest income on financial assets at FVOCI and AFS financial assets (Note 7)	**1,961**	3,405	9,416
Dividend income (Notes 7 and 8)	**131**	165	1,673
Unrealized loss on financial assets at FVPL (Note 8)	**(40)**	(108)	(460)
Write-off and other charges (Notes 5, 9, 13 and 17)	**(18,771)**	–	–
Interest expense on lease liabilities (Note 27)	**(151,188)**	–	–
Provision for probable losses (Note 28)	**(240,647)**	–	–
Gain on sale of financial assets at FVOCI and AFS financial assets (Note 7)	**–**	1,993	8,647
Reversal (loss) of impairment losses (Notes 17)	**–**	1,625	(9,823)
Gain on sale of investment property (Note 10)	**–**	722	16,400
Gain on sale of property and equipment (Note 11)	**–**	3	31,741
Equity in net loss of an associate	**–**	–	(43)
Others - net (Note 22)	**57,520**	22,242	26,430
	(317,451)	120,689	121,395
INCOME BEFORE INCOME TAX	**761,292**	706,911	38,669
PROVISION FOR INCOME TAX (Note 24)	**119,873**	152,195	20,118
NET INCOME	**₱641,419**	₱554,716	₱18,551
ATTRIBUTABLE TO:			
Equity holders of the Parent	**₱595,838**	₱441,908	₱33,143
Non-controlling interests	**45,581**	112,808	(14,592)
	₱641,419	₱554,716	₱18,551
EARNINGS PER SHARE (Note 25)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the Parent	**₱0.10**	₱0.08	₱0.01

See accompanying Notes to Consolidated Financial Statements.

AYALALAND LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Prime Orion Philippines, Inc.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
NET INCOME	**₱641,419**	₱554,716	₱18,551
OTHER COMPREHENSIVE INCOME			
Items that may not to be reclassified to profit or loss in subsequent periods:			
Gain (loss) on remeasurement on retirement benefits liability (Note 23)	**(6,194)**	(50)	5,600
Unrealized valuation loss on equity financial assets at fair value through other comprehensive income (Note 7)	**(25,132)**	(63,242)	–
Unrealized valuation loss on AFS financial assets	**–**	–	(150,621)
Items that may be reclassified to profit or loss in subsequent years:			
Unrealized valuation gain (loss) on debt financial assets at fair value through other comprehensive income (Note 7)	**17,638**	(7,454)	3,561
	(13,688)	(70,746)	(141,460)
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱627,731**	₱483,970	(₱122,909)
ATTRIBUTABLE TO:			
Equity holders of the Parent	**₱581,319**	₱372,210	(₱108,317)
Non-controlling interests	**46,412**	111,760	(14,592)
	₱627,731	₱483,970	(₱122,909)

See accompanying Notes to Consolidated Financial Statements.

AYALALAND LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Prime Orion Philippines, Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in Thousands)

	EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT										
	Capital Stock	Additional Paid-in Capital	Shares Held by a Subsidiary (Note 16)	Equity Reserves	Revaluation Increment (Note 10)	Unrealized Valuation Gains (Losses) on Financial Assets at FVOCI (Note 7)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Retained Earnings (Deficit)	Total	Non-controlling Interests	Total
Balances at January 1, 2019, as previously reported	**₱5,889,195**	**₱5,772,959**	**(₱1,279,026)**	**(₱1,351,940)**	**₱217,986**	**(₱579,379)**	**(₱44,313)**	**₱619,841**	**₱9,245,323**	**₱628,927**	**₱9,874,250**
Effect of adoption of PFRS 16 (Note 2)	–	–	–	–	–	–	–	(164,451)	(164,451)	(7,001)	(171,452)
Balances at January 1, 2019, as restated	5,889,195	5,772,959	(1,279,026)	(1,351,940)	217,986	(579,379)	(44,313)	455,390	9,080,872	621,926	9,702,798
Net income	–	–	–	–	–	–	–	595,838	595,838	45,581	641,419
Other comprehensive income											
Losses on remeasurement of retirement benefit plan (Note 23)	–	–	–	–	–	–	(6,194)	–	(6,194)	–	(6,194)
Unrealized valuation gain (loss) on financial assets at FVOCI (Note 7)	–	–	–	–	–	(8,325)	–	–	(8,325)	831	(7,494)
Total comprehensive income	–	–	–	–	–	(8,325)	(6,194)	595,838	581,319	46,412	627,731
Collection of subscription receivable (Note 16)	234,666	5,833	–	–	–	–	–	–	240,499	–	240,499
Issuance of capital stock (Note 16)	49,444	94,933	–	–	–	–	–	–	144,377	–	144,377
Acquisition of shares held by a subsidiary (Note 16)	–	–	(144,377)	–	–	–	–	–	(144,377)	–	(144,377)
Disposal of shares held by a subsidiary (Note 16)	–	138,397	1,279,026	–	–	–	–	–	1,417,423	–	1,417,423
Payment of stock transaction costs (Note 1)	–	(12,254)	–	–	–	–	–	–	(12,254)	–	(12,254)
Transfer of realized valuation increment (Note 10)	–	–	–	–	(14,150)	–	–	14,150	–	–	–
Acquisition of non-controlling interest (Note 1)	–	–	–	(246,258)	–	–	–	–	(246,258)	(553,742)	(800,000)
Balances at December 31, 2019	**₱6,173,305**	**₱5,999,868**	**(₱144,377)**	**(₱1,598,198)**	**₱203,836**	**(₱587,704)**	**(₱50,507)**	**₱1,065,378**	**₱11,061,601**	**₱114,596**	**₱11,176,197**

	EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT										
	Capital Stock	Additional Paid-in Capital	Shares Held by a Subsidiary (Note 16)	Equity Reserves	Revaluation Increment (Note 10)	Unrealized Valuation Gains (Losses) on Financial Assets at FVOCI (Note 7)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Retained Earnings (Deficit)	Total	Non-controlling Interests	Total
Balances at January 1, 2018, as previously reported	₱4,652,268	₱3,942,404	(₱1,279,026)	₱60,810	₱225,595	₱17,748	(₱46,259)	(₱355,159)	₱7,218,381	₱38,475	₱7,256,856
Effect of adoption of PFRS 9	–	–	–	–	–	(527,479)	–	527,479	–	–	–
Balances at January 1, 2018, as restated	4,652,268	3,942,404	(1,279,026)	60,810	225,595	(509,731)	(46,259)	172,320	7,218,381	38,475	7,256,856
Net income	–	–	–	–	–	–	–	441,908	441,908	112,808	554,716
Other comprehensive income											
Losses remeasurement of retirement benefit plan (Note 23)	–	–	–	–	–	–	1,946	(1,996)	(50)	–	(50)

(Forward)

	EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT										
	Capital Stock	Additional Paid-in Capital	Shares Held by a Subsidiary (Note 16)	Equity Reserves	Revaluation Increment (Note 10)	Unrealized Valuation Gains (Losses) on Financial Assets at FVOCI (Note 7)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Retained Earnings (Deficit)	Total	Non-controlling Interests	Total
Unrealized valuation loss on financial assets at FVOCI (Note 7)	₱–	₱–	₱–	₱–	₱–	(₱69,648)	₱–	₱–	(₱69,648)	(₱1,048)	(₱70,696)
Total comprehensive income	–	–	–	–	–	(69,648)	1,946	439,912	372,210	111,760	483,970
Collection of subscription receivable (Note 16)	4,643	–	–	–	–	–	–	–	4,643	–	4,643
Stock subscriptions through business combination (Note 1)	1,225,370	1,805,380	–	–	–	–	–	–	3,030,750	–	3,030,750
Stock subscription through ESOWN availment (Note 29)	6,914	4,473	–	–	–	–	–	–	11,387	–	11,387
Equity reserves through business combination (Note 1)	–	–	–	(1,392,048)	–	–	–	–	(1,392,048)	–	(1,392,048)
Transfer of equity reserve due to ESOWN shares subscription (Note 29)		20,702		(20,702)	–	–	–	–	–	–	–
Transfer of realized valuation increment (Note 10)	–	–	–	–	(7,609)	–	–	7,609	–	–	–
Increase in NCI through business combination (Notes 1)	–	–	–	–	–	–	–	–	–	498,440	498,440
Cash dividends (Note 16)	–	–	–	–	–	–	–	–	–	(19,748)	(19,748)
Balances at December 31, 2018	₱5,889,195	₱5,772,959	(₱1,279,026)	(₱1,351,940)	₱217,986	(₱579,379)	(₱44,313)	₱619,841	₱9,245,323	₱628,927	₱9,874,250

	EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT										
	Capital Stock	Additional Paid-in Capital	Shares Held by a Subsidiary (Note 16)	Equity Reserves	Revaluation Increment (Note 10)	Unrealized Valuation Gains (Losses) on Financial Assets at FVOCI (Note 7)	Losses on Remeasurement of Retirement Benefits Plan (Note 23)	Retained Earnings (Deficit)	Total	Non-controlling Interests	Total
Balances at January 1, 2017	₱2,765,589	₱1,598,654	(₱21,916)	₱27,469	₱233,206	₱168,449	(₱51,859)	(₱363,913)	₱4,355,679	₱52,370	₱4,408,049
Net income (loss)	–	–	–	–	–	–	–	33,143	33,143	(14,592)	18,551
Other comprehensive income											
Unrealized valuation loss on AFS financial assets (Note 7)	–	–	–	–	–	(147,060)	–	–	(147,060)	–	(147,060)
Actuarial gain recognized in OCI (Note 23)	–	–	–	–	–	–	5,600	–	5,600	–	5,600
Total comprehensive income	–	–	–	–	–	(147,060)	5,600	33,143	(108,317)	(14,592)	(122,909)
Collection of subscription receivable (Note 16)	1,886,679	2,343,750	–	–	–	–	–	–	4,230,429	–	4,230,429
Payment of stock subscription costs (Note 16)	–	–	–	–	–	–	–	(32,000)	(32,000)	–	(32,000)
Acquisition of own shares (Note 16)	–	–	(1,257,110)	–	–	–	–	–	(1,257,110)	–	(1,257,110)
Equity reserves (Note 2)	–	–	–	33,341	–	–	–	–	33,341	–	33,341
Transfer of realized valuation increment (Note 10)	–	–	–	–	(7,611)	–	–	7,611	–	–	–
Unrealized gain transferred from equity to consolidated statement of income	–	–	–	–	–	(3,641)	–	–	(3,641)	697	(2,944)
Balances at December 31, 2017	₱4,652,268	₱3,942,404	(₱1,279,026)	₱60,810	₱225,595	₱17,748	(₱46,259)	(₱355,159)	₱7,218,381	₱38,475	₱7,256,856

See accompanying Notes to Consolidated Financial Statements.

AYALALAND LOGISTICS HOLDINGS CORP. AND SUBSIDIARIES
(Formerly Prime Orion Philippines, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱761,292**	₱706,911	₱38,669
Adjustments for:			
Depreciation and amortization (Notes 10, 11, 12, 19 and 21)	**290,893**	248,887	100,974
Loss on retirement of investment properties (Notes 10 and 21)	**25,531**	–	–
Provision for probable losses (Note 28)	**240,647**	–	9,823
Interest expense on lease liabilities (Note 27)	**151,188**	–	–
Provision for (reversal of) impairment losses on:			
Receivables (Note 5)	**91,959**	(2,510)	60,340
Real estate held for sale and development	**12,281**	–	–
Other current assets (Note 9)	**1,502**	–	–
Investment properties	**(6,281)**		
Inventories	**–**	–	238
Depreciation of right-of-use assets (Note 27)	**64,754**	–	–
Interest expense and bank charges (Note 22)	**50,236**	739	(47,737)
Write-off and other charges (Notes 5, 9, 13 and 17)	**18,771**	–	12,811
Loss on valuation of financial assets at FVPL (Note 8)	**40**	108	460
Interest income (Note 22)	**(51,539)**	(32,311)	907
Reversal of provision for probable losses (Note 28)	**(32,280)**	–	–
Dividend income (Notes 7 and 8)	**(131)**	(165)	(1,673)
Gain on sale of:			
Property and equipment (Note 11)	**–**	(3)	(31,741)
Investment property (Note 10)	**–**	(723)	(16,401)
Financial assets at FVOCI and AFS financial assets	**–**	(1,993)	(8,647)
Equity in net loss of an associate	**–**	–	43
Share-based expense (Note 29)	**–**	–	33,340
Operating income before working capital changes	**1,618,863**	918,940	151,406
Decrease (increase) in:			
Receivables	**(957,519)**	11,809	(186,117)
Inventories	**–**	37	(314)
Real estate held for sale and development	**(830,992)**	(507,689)	–
Other current assets	**(492,099)**	(138,816)	(154,975)
Pension assets	**(571)**	4,177	(2,518)
Other noncurrent assets	**139,146**	(213,061)	(356,917)
Increase (decrease) in:			
Accounts payable and accrued expenses	**1,159,340**	(137,955)	(184,251)
Rental and other deposits	**80,461**	267,607	171,686
Net cash flows generated from (used in) operations	**716,629**	205,049	(562,000)
Interest received	**51,539**	32,206	47,737
Interest paid	**(50,236)**	(739)	(907)
Income tax paid	**(27,856)**	(855)	–
Net cash flows from (used in) operating activities	**690,076**	235,661	(515,170)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in amounts owed by related parties	**148,040**	(246,894)	1,055,609
Proceeds from termination of short-term investments	**43,489**	–	–
Dividends received (Notes 7 and 8)	**131**	165	1,673
Acquisition of:			
Investment properties (Note 10)	**(3,689,730)**	(251,368)	(4,589,666)
Property, plant and equipment (Note 11)	**(13,124)**	(16,458)	(29,390)
Financial assets at FVOCI (Note 7)	**(1,108)**	(6,385)	–
Software cost (Note 12)	**(35)**	–	(591)
Short-term investments (Note 4)	**–**	(43,489)	–
FVPL investments	**–**	–	(118)

(Forward)

	Years Ended December 31		
	2019	2018	2017
Acquisition of a subsidiary	**₱–**	₱70,116	₱–
Proceeds from sale of:			
Investment properties	**–**	1,700	20,000
Financial assets at FVOCI (Note 7)	**–**	2,019	903,833
Property, plant and equipment	**–**	3	48,182
FVPL investments (Note 8)	**–**	–	10,200
Investments in associate	**–**	1,888	–
Net cash flows used in investing activities	**(3,512,337)**	(488,703)	(2,580,268)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from sale of shares held by a subsidiary	**1,134,649**	–	–
Collection of subscription receivables	**378,897**	16,030	4,230,428
Issuance of shares of stocks	**144,377**	–	–
Increase (decrease) in:			
Amounts owed to related parties (Notes 17 and 31)	**2,082,911**	214,842	8,728
Non-controlling interests	**832**	(12,654)	–
Payment of subscription cost (Note 1)	**(12,254)**	–	–
Payment of principal portion of lease liabilities	**(149,704)**	–	–
Acquisition of non-controlling interest	**(800,000)**	–	–
Acquisition of treasury shares	–	–	(1,257,109)
Net cash flows from financing activities	**2,779,708**	218,218	2,982,047
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(42,553)**	(34,824)	(113,391)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**220,145**	254,969	368,360
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱177,592**	₱220,145	₱254,969

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate and Group Information**

Corporate Information
AyalaLand Logistics Holdings Corp. (ALLHC; the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 19, 1989. The Parent Company's registered office address is 3rd Floor Glorietta 5, Ayala Center, Makati City. The Parent Company is a subsidiary of Ayala Land, Inc. (ALI). ALI's parent company is Ayala Corporation (AC). AC is 47.33% owned by Mermac, Inc. and the rest by the public as at December 31, 2019. Both ALI and AC are publicly-listed companies incorporated in the Philippines. The Parent Company is listed in the Philippine Stock Exchange.

ALLHC and its subsidiaries, collectively referred to as "the Group", have principal business interests in holding companies, commercial leasing, industrial lot sales and development, and retail electricity supply (see Note 26).

On March 15, 2016, the Board of Directors (BOD) of ALLHC approved the change in the accounting period from fiscal year (July 1 to June 30) to calendar year (January 1 to December 31). The change in accounting period was approved by the SEC on April 10, 2017.

On May 9, 2019, the SEC approved the change of its corporate name from Prime Orion Philippines, Inc. to AyalaLand Logistics Holdings Corp.

The accompanying consolidated financial statements of the Group as of December 31, 2019 and 2018, and for the years ended December 31, 2019, 2018 and 2017 were approved by the Board of Directors in a meeting dated February 19, 2020.

Group Information
The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries of the Group:

		Percentage of Ownership	
Subsidiaries	**Nature of Business**	**2019**	2018
Laguna Technopark, Inc. (LTI)	Real Estate Development	**95%**	75%
Ecozone Power Management, Inc. (EPMI)	Purchase, Supply and Delivery of Electricity	**95%**	75%
Unity Realty Development Corporation (URDC)	Real Estate Development	**100%**	−%
Orion Land, Inc. (OLI)	Real Estate and Investment Holding Company	**100%**	100%
Tutuban Properties, Inc. (TPI)	Real Estate, Mall Operations	**100%**	100%
TPI Holdings Corporation (TPIHC)	Investment Holding Company	**100%**	100%
Orion Property Developments, Inc. (OPDI)	Real Estate Development	**100%**	100%
Orion Beverage, Inc. (OBI)*	Manufacturing	**100%**	100%
LCI Commercial Ventures, Inc. (LCVI)	Real Estate, Warehouse Leasing Operations	**100%**	100%
Luck Hock Venture Holdings, Inc. (LHVHI)*	Other Business Activities	**60%**	60%
OE Holdings, Inc. (OEHI)**	Wholesale and Trading	**−**	100%
Orion Maxis, Inc. (OMI)*	Marketing and Administrative Services	**100%**	100%
ZHI Holdings, Inc. (ZHIHI)**	Financial Holding Company	**−**	100%
Orion I Holdings Philippines, Inc. (OIHPI)*	Financial Holding Company	**100%**	100%
FLT Prime Insurance Corporation (FPIC)	Non-Life Insurance Company	**78.77%**	78.77%
Orion Solutions, Inc. (OSI)*	Management Information Technology Consultancy Services	**100%**	100%

** Inactive companies approved by their respective BOD for liquidation*
*** SEC approved the shortening of corporate term*

All of the companies are incorporated in the Philippines.

The voting rights held by the Parent Company in its investments in subsidiaries are in proportion to its ownership interest.

LTI
LTI was incorporated on November 15, 1990 and is based in Laguna. LTI develops industrial parks and leases ready-built factory units and sells industrial lots to local and company locators.

On June 7, 2010, the BOD of LTI approved the setting up of a wholly owned subsidiary, EPMI, primarily to engage in the purchase, supply and delivery of electricity. EPMI was registered with the Securities and Exchange Commission (SEC) on August 20, 2010.

URDC
URDC owns a property in Pampanga, a prime location for the new industrial park of ALLHC, which caters to light and medium, non-polluting enterprises, from both global and local markets. The development will complement the overall plans of the Group as it envisions Pampanga Technopark to be a world-class industrial township.

OLI
OLI operates commercial building composed of a 5-storey shopping center and a 6-storey business processing outsourcing office with a gross leasable area of
60,000 square meters located along National Road, Alabang, Muntinlupa City.

TPI
TPI operates the Tutuban Center, a commercial complex located in Manila City. The Tutuban Center, which sits on a 20-hectare property, will be the location of the North-South Railway Project (NSRP) Transfer Station which will interconnect with the LRT 2 West Station (see Note 10).

On April 1, 2015, TPI signed a Memorandum of Understanding (MOU) with the Department of Transportation and Communication (DOTC) (now the Department of Transportation or DOTr) and Philippine National Railways (PNR) to formalize the agreement to cooperate in the finalization and implementation of plans of the North-South Railway Project (NSRP). As of December 31, 2019, discussions on the finalization and implementation of the plans of the NSRP is still on-going.

LCVI
LCVI was a top manufacturer of ceramic floor and wall tiles in the Philippines and has a manufacturing plant in Laguna. In 2012, LCVI suspended its manufacturing operations and started renting out its warehouses in July 2014.

FPIC
In March 2017, FPIC surrendered its Certificate of Authority as it was no longer compliant with the net worth requirement of ₱550.00 million of the Insurance Commission (IC) as of December 31, 2016.

On April 20, 2017, the IC issued a Servicing License to FPIC, with authority limited to the following:

a. accepting contract price payments from the policyholders;
b. paying or settling claims arising under its non-life coverage; and/or,
c. such other related services.

On September 7, 2018, the IC approved the Servicing Plan of FPIC. Based on the approved plan, FPIC has until April 19, 2019 to service policies expiring in 2019 and 2020 and to settle outstanding liabilities and obligations of FPIC.

On July 11, 2019, FPIC has submitted to the IC its request for the release of the security deposit. Based on IC Circular Letter No. 2013-35 (Guidelines on the Release of Security Deposit), the following applicability conditions have to be met before such request can be made:

1. The Company has no license to do insurance business; and
2. The Company is not under conservatorship, receivership or liquidation of the IC.

The above two (2) conditions have been met by FPIC.

On November 22, 2019, FPIC has applied for the renewal of its Servicing License with the IC for one year or until December 31, 2020. The said renewal of license was made to conform with one year 'waiting period' for the claimants to file, submit or report to the IC any claim against FPIC. The waiting period will commence from the last publication date of the 'Notice to the Public' regarding FPIC's request for the release of its security deposit.

Inactive Companies
On September 2, 2016, the BOD of OMI and OSI approved and authorized the dissolution and liquidation of OMI and OSI by shortening their corporate term up to December 31, 2016.

On October 20, 2017, the BOD of OIHPI, OEHI, ZHIHI, OBI, LHVHI and TPIHC approved and authorized the dissolution and liquidation of these companies by shortening their corporate term up to December 31, 2017.

On September 25, 2019 and December 9, 2019, the SEC approved the shortening of corporate term of ZHIHI and OEHI, respectively.

Business Combination
LTI
On April 30, 2018, ALLHC entered into a Deed of Exchange with ALI whereby ALI agreed to subscribe to 1,225,370,620 additional shares in ALLHC in exchange for ALI's 30,186 shares in LTI, with a fair market value of ₱3,030.75 million. Accordingly, the Group paid documentary stamp tax amounting to ₱12.25 million on the original issuance of shares offset against additional paid-in capital.

The acquisition resulted to LTI becoming a subsidiary of ALLHC. Both ALLHC and LTI are under the common control of ALI. The acquisition was accounted for using the pooling of interests method.

The following were the carrying values of the identifiable assets and liabilities of LTI Group at the date of acquisition:

	As of April 30, 2018
	(In Thousands)
Assets	
Cash and cash equivalents	₱70,116
Receivable	1,583,059
Real estate held for sale and development	517,092
Other current assets	188,272
Financial assets at fair value through profit or loss	1,984
Financial assets at fair value through other comprehensive income	12,943
Property and equipment	1,145
Investment properties	820,148
Pension assets	180
Other noncurrent assets	59,485
Total assets	3,254,424

	As of April 30, 2018
	(In Thousands)
Liabilities	
Accounts and other payables	₱1,023,608
Income tax payable	11,297
Other current liabilities	3,582
Deposits	64,165
Deferred tax liabilities	1,342
Other noncurrent liabilities	13,288
Total liabilities	1,117,282
	2,137,142
Non-controlling interest	(498,440)
Net assets attributable to the Group	1,638,702
Acquisition cost	3,030,750
Equity reserve	₱1,392,048

The acquisition resulted to increase in Group's subscribed capital and additional paid-in capital of ₱1,225.37 million and ₱1,805.38 million, respectively.

From April 30, 2018 to December 31, 2018, the Group's share in LTI's revenue and net income amounted to ₱1,966.44 million and ₱219.27 million. If the combination had taken place at the beginning of 2018, the Group's share in LTI's revenue and net income would have been ₱2,836.76 million and ₱453.50 million, respectively.

Acquisition of URDC
On July 19, 2019, in a Deed of Absolute Sale, the Parent Company purchased from previous individual stockholders their entire outstanding shares of URDC representing 100% ownership. The Parent Company partially paid the previous individual stockholders amounting to ₱1,184.70 million representing 50% of the total value of the shares. The Parent Company will settle the remaining balance amounting to ₱1,194.73 million in two separate installments due on September 16, 2020 and 2021, this is lodged in trade payables under "Accounts and other payables". This is accounted for as acquisition of an asset that does not constitute a business because the Group did not acquire a substantive process that significantly contribute to the ability to create outputs in order to be classified as a business. The Group allocated the acquisition cost to inventory and investment property based on relative fair values (see Notes 6 and 10).

Acquisition of Non-controlling Interest
On June 10, 2019, ALLHC purchased additional 8,051 LTI shares from ALI for a total consideration of ₱800.00 million, resulting to an increase in ownership in LTI from 75% to 95%. Accordingly, non-controlling interest decreased by ₱553.74 million and equity reserve increased by ₱246.26 million.

Material Partly-Owned Subsidiaries with Material Economic Ownership Interest
Information of the subsidiary that have material non-controlling economic interests follows:

LTI

	2019	2018
	(In Thousands, except for %)	
Proportion of equity interests held by non-controlling interest	**1.08%**	6.34%
Voting rights held by non-controlling interest	**5%**	25%
Accumulated balances of non-controlling interest	**₱121,597**	₱628,927
Net income allocated to non-controlling interest	**45,581**	112,808
Comprehensive income allocated to material non-controlling interest	**46,412**	105,355
Dividends paid to non-controlling interest	**–**	20,112

The summarized financial information of LTI provided below. The information is based on amounts before intercompany eliminations.

	2019	2018
	(In Thousands)	
Statement of financial position		
Current assets	**₱2,890,632**	₱2,576,505
Noncurrent assets	**2,272,826**	1,387,572
Current liabilities	**774,381**	1,106,379
Noncurrent liabilities	**1,490,999**	267,389
Statement of comprehensive income		
Revenue	**3,411,364**	2,621,919
Profit attributable to:		
Equity holders of the parent	**289,633**	335,673
Non-controlling interests	**45,581**	112,808
Total comprehensive income attributable to:		
Equity holders of the parent	**284,918**	336,361
Non-controlling interests	**50,296**	112,120
Statement of cash flows		
Operating activities	**(256,868)**	76,900
Investing activities	**(701,276)**	(113,390)
Financing activities	**870,600**	59,172
Effect of exchange rates changes	**–**	711
Net increase (decrease) in cash and cash equivalents	**(₱87,544)**	₱23,393

2. **Summary of Significant Accounting and Financial Reporting Policies**

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for the debt and equity financial assets measured at fair value. The consolidated financial statements are presented in Philippine Peso, which is the Parent Company's functional currency. All amounts are rounded off to the nearest thousand (₱1,000), except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 and 3-2019 as of 2018 for the following implementation issues of PFRS 15 affecting the real estate industry:

a) Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
b) Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H
c) Adoption of PIC Q&A No. 2018-14: PFRS 15 – Accounting for Cancellation of Real Estate Sales

PFRSs include Philippine Financial Reporting Standards, Philippine Accounting Standards and Interpretations issued by the Philippine Interpretations Committee (PIC).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the group ceases control over a subsidiary.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
a. power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control.

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:

a. the contractual arrangement with the other vote holders of the investee;
b. rights arising from other contractual arrangements; and
c. the Group's voting rights and potential voting rights.

The Group reassesses 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.

The financial statements of the subsidiaries are prepared for the same accounting period as the Parent Company using uniform accounting policies. All significant intercompany transactions and balances between and among the Group, including intercompany profits and unrealized profits, are eliminated in the consolidation.

Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity holders of the parent.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. 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 as "Equity reserve" and attributed to the owners of the Parent Company.

If the Group losses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while the resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019:

- PFRS 16, *Leases*

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

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

As lessee, the Group adopted PFRS 16 using the modified retrospective approach and elected to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4. Under the modified retrospective approach, the Group recognized right-of-use asset based on its carrying amount as if PFRS 16 had always been applied while the lease liability is recognized at date of adoption, January 1, 2019. The difference between the right-of-use asset and lease liability is recognized in the beginning retained earnings as at January 1, 2019.

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

	Increase (decrease) *(In Thousands)*
Consolidated statement of financial position:	
Right-of-use assets	₱1,353,872
Deferred income tax assets - net	56,585
Lease liabilities	1,694,120
Accounts payable and accrued expenses	(112,211)
Retained earnings	(164,451)
Non-controlling interests	(7,001)

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases.

Leases previously classified as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases. The right-of-use assets were recognized based on the carrying amount using the incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:
- Right-of -use assets of ₱1,353.87 million were recognized and presented separately in the consolidated statement of financial position.
- Additional lease liabilities of ₱1,694.12 million were recognized.
- Accounts payable and accrued expenses of ₱112.21 million related to previous operating leases arising from straight lining under PAS 17 were derecognized.
- Net deferred tax assets increased by ₱56.59 million because of the deferred tax impact of the changes in assets and liabilities.
- The net effect of these adjustments had been adjusted to retained earnings and non-controlling interest amounting to ₱164.45 million and ₱7.00 million, respectively.

The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018 as follows (amounts in thousands):

Operating lease commitments as at December 31, 2018	₱2,904,273
Weighted average incremental borrowing rate at January 1, 2019	9.14%
Lease liabilities recognized at January 1, 2019	₱1,694,120

The Group has no commitments relating to short term leases and leases of small assets. There were no payments in optional extension periods not recognized at December 31, 2018.

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

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

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

  The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

  The Group applies significant judgement in identifying uncertainties over income tax treatments. The Group assessed whether the interpretation had an impact on its consolidated financial statements.

  Based on the Group's assessment, it determined, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the adoption of the Interpretation has no significant impact on the consolidated financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the consolidated financial statements of the Group.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

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

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

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

  The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

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

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

  Since the Group does not have such long-term interests in its associate and joint venture, the amendments had no impact on its consolidated financial statements.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements.

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

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

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements.

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

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

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

  Upon adoption, the Group does not expect any effect on its consolidated financial statements.

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

Effective beginning on or after January 1, 2020

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

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

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

  These amendments will apply on future business combinations of the Group.

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

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

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

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

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

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

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The new standard is not applicable to the Group since the Group's insurance entity no longer issues insurance contracts.

Deferred effectivity

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

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

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

Current versus Noncurrent Classification

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

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

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

Fair Value Measurement

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: (i) in the principal market for the asset or liability, or (ii) in the absence of a principal market, the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business at the end of the reporting period. Financial instruments for which the fair value cannot be reasonably determined are carried at cost less any impairment in value.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

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

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placement and that are subject to an insignificant risk of change in value.

Financial Instruments – initial recognition and subsequent measurement effective January 1, 2018
Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

a. Financial assets
Initial recognition and measurement
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. 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.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement
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)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash and cash equivalents, short-term Investments, receivables and amounts owed to related parties.

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

(a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
(b) Selling and 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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group's debt instruments at fair value through OCI includes government securities owned by the Group.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group's financial assets at fair value through OCI includes investments in quoted and unquoted equity instruments.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in profit or loss.

Derecognition
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 recognized 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.

Impairment of financial assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. 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 other credit enhancements (e.g. lessee's deposit) that are integral to the contractual terms.

For trade receivables except real estate receivable, the Group applies a simplified approach in calculating ECLs. The Group does not track changes in credit risk, instead, recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Vintage approach accounts for expected credit losses by calculating the cumulative loss rates of a given real estate receivable 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 probability of default model. It allows the evaluation of the loan activity from its origination period until the end of the contract period. In addition to primary drivers like macroeconomic indicators of qualitative factors such as, but not limited to, forward-looking data on inflation rate was added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on the type of facility. In calculating the recovery rates, the Group considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission and refurbishment. As these are future cash flows, these are discounted back to the time of default using the appropriate effective interest rate, usually being the original effective interest rate (EIR) or an approximation thereof.

The Group considers a financial asset in default generally when contractual payments are 30 days past due for commercial leasing and 90 days past due for real estate and property development or when sales are cancelled supported by a notarized cancellation letter executed by the Group and customer. However, 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.

For other financial assets such as nontrade receivables, insurance receivables, amounts owed by related parties, refundable deposits and other receivables, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents and short-term investments, the Group applies the low credit risk simplification. 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 (i.e., no longer low credit risk). The probability of default and loss given defaults are publicly available and are used by the Group to estimate ECLs. 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's debt instruments at fair value through OCI comprise solely of government securities. The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

b. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include "Accounts payable and accrued expenses" (other than "Taxes payable" which is covered by other accounting standard), "Amounts owed to related parties", "Subscriptions payable", "Rental and other deposits" and "Lease liabilities".

Subsequent measurement

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 profit or loss.

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.

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings 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 profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Other Financial Liabilities
This is the category most relevant to the Group and includes liabilities arising from operations.

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Gains and losses on other financial liabilities are recognized in the consolidated statement of income when the liabilities are derecognized, as well as through the amortization process.

The Group's accounts payable and accrued expenses and rental and others deposits are classified in this category.

Derecognition
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 profit or loss.

c. Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

<u>Financial Instruments – initial recognition and subsequent measurement prior to January 1, 2018</u>
<u>Financial Instruments</u>
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

Initial Recognition of financial instruments
Financial instruments within the scope of PAS 39 are classified as financial assets and financial liabilities at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets and financial liabilities. The Group determines the classification of its financial instruments at initial recognition.

All financial instruments are recognized initially at fair value plus transaction costs, except in the case of financial instruments recorded at FVPL.

As at December 31, 2017, the Group's financial assets are in the nature of loans and receivables, financial assets at FVPL and AFS financial assets. The Group has no financial assets classified as HTM investments as at December 31, 2017.

Financial liabilities within the scope of PAS 39 are classified as financial liabilities at FVPL, as derivatives designated as hedging instruments in an effective hedge, or as other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition. As at December 31, 2017, the Group's financial liabilities are in the nature of other financial liabilities.

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

Financial Instruments - Subsequent Measurement

The subsequent measurement of financial instruments depends on their classification as follows:

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. 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 in interest income in the consolidated statement of income. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are impaired or derecognized. Loans and receivables are included in current assets if maturity is within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables include cash and cash equivalents, receivables, amounts owed by related parties and refundable deposits (included under "Other noncurrent assets"; see Notes 4, 5, 15 and 17).

AFS Financial Assets
AFS financial assets include equity and debt securities. AFS financial assets consist of investment in equity securities which are neither classified as held for trading nor designated at FVPL. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are included in current assets if it is expected to be realized or disposed of within twelve (12) months from the end of the reporting period. Otherwise, these are classified as noncurrent assets.

After initial recognition, AFS financial assets are subsequently measured at fair value with unrealized gains and losses recognized under Other Comprehensive Income (OCI) in the "Unrealized valuation gains on AFS financial assets" in the consolidated statement of changes in equity until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated statement of income, or the investment is determined to be impaired, when the cumulative loss is reclassified from equity to the consolidated statement of income as impairment losses. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS financial assets are reported as interest income using the EIR. Dividends on holding AFS financial assets are recognized in the consolidated statement of income when the right of payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

The Group's listed and quoted debt securities are classified under this category (see Note 7).

Financial Assets at FVPL
Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at FVPL are carried in the consolidated statement of financial position at fair value, with changes in fair value recognized in the consolidated statement of income.

The Group evaluated its financial assets at FVPL (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, AFS financial assets or HTM investments depends on the nature of the asset. This evaluation does not affect any financial assets designated at FVPL using the fair value option at designation.

The Group's investment in UITF are classified under this category (see Note 8).

Other Financial Liabilities
After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue cost, and any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

The Group's financial liabilities include accounts payable and accrued expenses, rental and other deposits, amounts owed to related parties and subscriptions (see Notes 1, 14, 15, 17 and 18).

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

Financial Assets Carried at Amortized Cost
For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Loans and receivables, together with the associated allowance, are written off when there is no realistic prospect of future recovery. Interest income continues to be recognized based on the original EIR. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets
In the case of quoted equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income in the "Others - net" account. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of "Interest income on AFS financial assets" account in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Instruments

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

- the rights to receive cash flows from the asset have expired;
- 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) has transferred substantially all the risks and rewards of the asset; or (b) 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 all 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 asset is recognized to the extent of the Group's continuing involvement in the asset. 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.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.
Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statement of income.

Real Estate Held for Sale and Development
Real estate held for sale and development is carried at the lower of cost and NRV. NRV is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost includes acquisition cost of the land plus development and improvement costs. Borrowing costs incurred on loans obtained to finance the improvements and developments of real estate held for sale and development are capitalized while development is in progress.

Other Current Assets
Other current assets are resources that the Group expects to consume or realize within its operating cycle. These are carried at cost, less any impairment in value. Included under these are creditable withholding taxes (CWTs), input value added tax (VAT), and prepayments.

CWTs
CWTs represent taxes withheld by the Group's customer on sale of goods and services which are claimed against income tax due. The excess over the income tax payable is either carried over in the succeeding period for the same purpose or claimed for refund.

VAT
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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

The net amount of VAT recoverable from the taxation authority is included as part of “Other current assets” and Other noncurrent assets” in the consolidated statement of financial position.

Prepayments
Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses are apportioned to expense over the period covered by the payment and charged to the appropriate expense accounts when incurred.

Investment Properties
The Group’s investment properties include properties utilized in its mall operations, commercial building and certain land and land improvements which are held for rentals while the rest of the land is held for capital appreciation.

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is stated at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Depreciation and amortization of investment properties are computed using the straight-line method over the estimated useful lives of the investment properties as follows:

	Useful life in years
Land improvements	30
Buildings and improvements	7-40
Machineries and equipment	9-25

Leasehold improvements are amortized on a straight-line basis over the estimated useful lives or the term of the lease, whichever is shorter.

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

Investment properties are derecognized when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

The Group classifies its buildings and improvements and land and improvements either as investment property or owner-occupied property based on its current intentions where it will be used. When buildings and improvements as well as land and improvements are held for capital appreciation or when management is still undecided as to its future use, it is classified as investment property. Buildings and improvements and land and improvements which are held for rent are classified as investment properties.

Constructions-in-progress

The Group's constructions-in-progress are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of 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. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefit expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful life of the property and equipment as follows:

	Useful life in years
Leasehold improvements	3-5
Machinery and equipment	5-10
Transportation equipment	5
Furniture, fixtures and equipment	3-5

Leasehold improvements are amortized on a straight-line basis over three (3) to five (5) years or the term of the lease, whichever is shorter.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in profit or loss in the year the asset is derecognized.

The residual values, useful lives and depreciation and amortization method are reviewed and adjusted if appropriate, at each end of the reporting period.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are sold or retired, the cost and the related accumulated depreciation and amortization and any impairment in value are derecognized and any gain or loss resulting from their disposal is included in profit or loss.

Software Costs

Acquired software license is capitalized on the basis of costs incurred to acquire and bring to use the specific software. Software license is amortized on a straight-line basis over its estimated useful life of three (3) to four (4) years. Costs associated with the development or maintenance of computer software programs are recognized as expense when incurred in profit or loss.

An item of software license 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 de-recognition of the asset is included in profit or loss in the year the items is derecognized.

The Group's capitalized software costs includes purchase price payments for new software and other directly related costs necessary to bring the asset to its intended use.

Other Noncurrent Assets
Other noncurrent assets consist of advance rental, deferred acquisition cost, refundable deposits, deferred input VAT, spare parts and supplies and other prepayments that will be consumed twelve (12) months after each end of the reporting period.

Deferred Acquisition Costs
Costs incurred in relation to the acquisition of insurance contracts such as commissions are deferred and charged to commission expense in proportion to premium revenue recognized.

Subsequent to initial recognition, these costs are amortized using the 24th method where the deferred acquisition cost pertains to the commissions for the last two months of the year. Amortization is charged to profit or loss. The unamortized acquisition costs are shown as "Deferred acquisition cost" under "Other noncurrent assets".

Advances to suppliers and contractors
These are carried at cost less impairment losses, if any.

Impairment of Nonfinancial Assets
Inventories and Real Estate Held for Sale and Development
The Group recognizes provision for inventory losses when the net realizable values of inventory items become lower than the costs due to obsolescence or other causes. Obsolescence is based on the physical and internal condition of inventory items. Obsolescence is also established when inventory items are no longer marketable. Obsolete goods, when identified, are written down to their net realizable values.

Investment Properties, Property and Equipment, Software Costs and Right-of-use Assets
The Group assesses at each end of the reporting period whether there is an indication that investment properties, property and equipment and software costs may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their estimated recoverable amounts. The estimated recoverable amount of an asset is the greater of fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's-length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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.

For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statement of income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset in prior years.

Nonfinancial Other Current and Noncurrent Assets
The Group first assesses whether there are indications of impairment on nonfinancial other current and noncurrent assets. When indicators exist, the Group estimates the recoverable amount of the asset and recognizes impairment loss in profit or loss to reduce the carrying amount to the recoverable value.

Insurance contracts
Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract, there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. As a general guideline, the Group defines significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts can, however, be reclassified as insurance contracts after inception if the insurance risk becomes significant.

Recognition and Measurement

a) Premium Revenue
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is accounted for as "Reserve for unearned premiums" and shown as part of "Accounts payable and accrued expenses" in the statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as "Deferred reinsurance premiums" and shown under "Other noncurrent assets" in the consolidated statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against profit or loss.

b) Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Reserve for Unearned Premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods is deferred as reserve for unearned premiums using the 24^{th} method. The change in the reserve for unearned premiums is taken to profit or loss in the order that revenue is recognized over the period of risk.

Claims Provision and Incurred but not Reported (IBNR) losses
Outstanding claims provision are based on the estimated ultimate cost of all claims incurred but not settled at the financial reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the reporting date. Provision for IBNR losses is calculated based on standard actuarial projection techniques.

The liability is not discounted for the time value of money and includes IBNR losses. The liability is derecognized when the contract expires, is discharged or is cancelled.

Liability Adequacy Test
At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses are used. Any inadequacy is immediately charged to profit or loss by establishing an unexpired risk provision for losses arising from the liability adequacy tests.

c) Reinsurance Assets
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies for ceded insurance liabilities. Recoverable amounts are estimated in a manner consistent with the outstanding claims provisions and are in accordance with the reinsurance contract.

An impairment review is performed on all reinsurance assets when an indication of impairment arises during the financial reporting year.

Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income.

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

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

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

Reinsurance commissions are deferred and subject to the same amortization method as the related acquisition costs; unamortized reinsurance commissions are shown as “Due to reinsurers and ceding companies” and shown as part of “Accounts payable and accrued expenses” in the statement of financial position.

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

Short-term Insurance Contracts
These contracts include the following:

- Fire insurance contracts cover loss or damage to the insured's properties caused by fire and/or natural calamities like typhoon, lightning, flood and earthquake.
- Motor insurance contracts provide financial protection to vehicle owners against physical loss of or damage to their vehicles and legal liability to third parties and/or passengers due to accident.
- Personal accident insurance contracts provide financial aid to either the insured or his beneficiaries in case of accidental death or disability.
- Marine insurance contracts indemnify the owner and/or assignee of a vessel, plane, goods and/or other transportable properties against sustained loss or damage on land, marine and aerial transit.
- Engineering insurance contracts provide complete protection against loss of or damage to plant, mechanical, electronic and other types of equipment used in construction and/or business operations.
- Extended perils or optional coverages are also available.
- Bonds/suretyship insurance contracts cover undertake to provide the needed guarantee to complete a contractual or civil engineering project.
- Liability insurance contracts indemnify the insured against the financial consequences of accidents to third parties for which he is legally responsible or liable.

<u>Rental and Other Deposits</u>
Customer rental and other deposits represent payments from tenants on leased properties which are refundable at the end of the lease contract. These are initially measured at fair value and subsequently measured at amortized cost.

<u>Subscriptions Payable</u>
Subscriptions payable pertains to the Group’s unpaid subscription of shares of stock of other entities. These are recognized and carried in the books at the original subscription price in which shares of stock will be issued upon payment.

Combinations of Entities Under Common Control
Business combinations of entities under common control are accounted for using the pooling of interests method. The pooling of interests method is generally considered to involve the following:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts as of date of acquisition. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity.

The financial information in the consolidated financial statements are not restated for periods prior to the combination of the entities under common control as allowed by the Philippine Interpretations Committee (PIC) Q&A No. 2012-01.

Asset Acquisitions
If the assets acquired and liabilities assumed in an acquisition transaction do not constitute a business as defined under PFRS 3, the transaction is accounted for as an asset acquisition. The Group identifies and recognizes the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets) and liabilities assumed. The acquisition cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such transaction or event does not give rise to goodwill. Where the Group acquires a controlling interest in an entity that is not a business, but obtains less than 100% of the entity, after it has allocated the cost to the individual assets acquired, it notionally grosses up those assets and recognizes the difference as non-controlling interests.

Capital Stock
Common shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds. The excess of proceeds from issuance of shares over the par value of shares are credited to “Additional paid-in capital”. Subscription receivables pertains to the uncollected portion of the subscribed shares and is presented net against capital stock.

Retained Earnings
Retained earnings represent accumulated earnings of the Group.

Equity Reserves
Equity reserves pertain to the excess of the cost of business combinations over the net carrying amounts of the assets and liabilities of the acquired companies.

Treasury Shares and Shares Held by a Subsidiary
Treasury shares are own shares (ALLHC and subsidiaries) acquired by the Group. These are measured at acquisition cost and presented as deduction against equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Parent Company’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

The Parent Company’s shares acquired by a subsidiary is presented as “Shares held by a subsidiary” under the equity section.

Share-based Payments
The Group has equity-settled, share-based compensation plan with its employees. The Group has an employee stock ownership plan (ESOWN) which allows the grantees to purchase the Group’s shares at a discounted price. The Group recognizes stock compensation expense over the holding period. These are accounted for as limited-recourse loan-type share plans. Dividends paid on the awards are treated as installment payment against the exercise price of the options. The cost of

equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognized, together with a corresponding increase in "Equity reserves" in equity, in "Personnel expense" account

Other Comprehensive Income (Loss)
Other comprehensive income (loss) comprises items of income and expense that are not recognized in the consolidated statement of income for the year in accordance with PFRS.

Revenue Recognition effective January 1, 2018
Revenue from Contract with Customers
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, air- conditioning and common use service area in its mall retail spaces, wherein it is acting as agent.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

Sale of Electricity Revenue
The Group recognizes revenue from electricity services over time using the output method as the customer receives and consumes the benefit from the performance of the related utility service. As a practical expedient allowed under PFRS 15, the Group recognizes revenue in the amount to which the Group has a right to invoice since the Group bills a fixed amount for every kilowatt hour of electricity delivered. Electricity is billed every month according to the billing cycles of the customer.

Rental
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

Real estate sales
The Group derives its real estate revenue from sale of industrial lots. Revenue from sale of industrial lots are recognized over time during the development period (or percentage of completion) since based on the terms and conditions of its contract with the customers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

In measuring the progress of its performance obligation over time, the Group uses the output method. The Group recognizes revenue based on direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract. Progress is measured using survey of performance completed to date. This is based on the monthly project accomplishment report prepared by the third-party surveyor as approved by the construction manager which integrates the surveys of performance to date of the construction activities for both sub-contracted and those that are fulfilled by the developer itself.

As of December 31, 2019 and 2018, the Group's industrial lots being sold is 100% completed.

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 are recognized in the year in which the changes are determined.

Insurance Premiums and Commissions - net
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for premiums arising from marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is

accounted for as "Reserve for unearned premiums" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as "Deferred reinsurance premiums" and shown under "Other noncurrent assets" in the consolidated statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against income for the period.

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year.

The portion of the commissions that relates to the unexpired periods of the policies at the financial reporting date is accounted for as "Due to reinsurers and ceding companies" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position.

Interest Income
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as financial assets at FVOCI and AFS financial assets, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

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

<u>Revenue Recognition prior to January 1, 2018</u>
Rental
Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

Insurance Premiums and Commissions - net
Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method, except for premiums arising from marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relates to the unexpired periods of the policies at financial reporting dates is accounted for as "Reserve for unearned premiums" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at financial reporting dates are accounted for as "Deferred reinsurance premiums" and shown under "Other noncurrent assets" in the consolidated statement of financial position. The net changes in these accounts between financial reporting dates are charged to or credited against income for the period.

Reinsurance commissions are recognized as revenue over the period of the contracts using the 24th method, except for marine cargo where the deferred reinsurance commission pertains to the premiums for the last two months of the year.

The portion of the commissions that relates to the unexpired periods of the policies at the financial reporting date is accounted for as "Due to reinsurers and ceding companies" and shown as part of "Accounts payable and accrued expenses" in the consolidated statement of financial position.

Gain on Sale of Financial Assets at Fair Value Through Other Comprehensive income
Gain on sale of financial assets at fair value through OCI is recognized when the Group sold its financial assets at fair value through OCI higher than its carrying value at the time of sale.

Interest Income
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as financial assets at FVOCI and AFS financial assets, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Dividend Income
Dividend income is recognized when the Group’s right to receive the payment is established.

Cost and Expenses effective January 1, 2018

Cost recognition for real estate sales
The Group recognizes costs relating to satisfied performance obligations as these are incurred. These include costs of land, land development, professional fees, depreciation, permits and licenses. 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.

Cost of purchased power and services
Purchased power represents the cost of electricity supplied to contestable customers. This includes generation charges, transmission line fees, capacity fees and systems losses which are recognized in profit or loss when the electricity purchased is consumed.

Cost of rental services
Cost of rental services are direct costs incurred in the normal course of the business, are recognized when incurred and generally measured in the amount paid or payable. These comprise cost of rent, utilities, depreciation and others.

Operating Expenses
Operating expenses consist of all expenses associated with the development and execution of marketing and promotional activities and expenses incurred in the direction and general administration of day-to-day operations of the Group. These are generally recognized when the service is incurred, or the expense arises.

Commission Expense
Commission expense is recognized as incurred. Commissions are paid to agents from selling insurance contracts. Rates applied on collected premiums vary depending on the type of insurance product. Subsequent to initial recognition, commission expense is amortized using the 24th method. The unamortized portion of commission expense represents DAC in the statement of financial position.

Underwriting Expenses
Underwriting expenses pertain to the Company's share in the underwriting expenses incurred by insurance pools in which the Company is a member. An insurance pool is a collective pool of assets from multiple insurance companies and used as a way of providing high risk insurance. Underwriting expenses are recognized by the Company as incurred.

Cost and Expenses prior January 1, 2018
Cost of rental services
Cost of rental services are direct costs incurred in the normal course of the business, are recognized when incurred and generally measured in the amount paid or payable. These comprise cost of rent, utilities, depreciation and others.

Operating Expenses
Operating expenses consist of all expenses associated with the development and execution of marketing and promotional activities and expenses incurred in the direction and general administration of day-to-day operations of the Group. These are generally recognized when the service is incurred or the expense arises.

Commission Expense
Commission expense is recognized as incurred. Commissions are paid to agents from selling insurance contracts. Rates applied on collected premiums vary depending on the type of insurance product. Subsequent to initial recognition, commission expense is amortized using the 24th method. The unamortized portion of commission expense represents DAC in the statement of financial position.

Underwriting Expenses
Underwriting expenses pertain to the Company's share in the underwriting expenses incurred by insurance pools in which the Company is a member. An insurance pool is a collective pool of assets from multiple insurance companies and used as a way of providing high risk insurance. Underwriting expenses are recognized by the Company as incurred.

Earnings Per Share
Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Parent Company (after adjusting for interest on any convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred Income Tax
Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the end of the reporting period.

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

- when the deferred income tax liability arises from the initial recognition of goodwill or 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, when 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 income tax assets are recognized for all deductible temporary differences, carry forward benefits of unused net operating loss carryover (NOLCO) and unused tax credits from excess minimum corporate income tax (MCIT), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, and the carry forward of unused NOLCO and MCIT can be utilized, and except if it arises from initial recognition and those associated with the investments in subsidiaries, associates and joint ventures as discussed above.

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

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

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

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered. Subsidiaries operating in the Philippines file income tax returns on an individual basis. Thus, the deferred tax assets and deferred tax liabilities are offset on a per entity basis.

Retirement Benefits Costs

The Group has a funded, non-contributory defined benefit retirement plan.

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. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning the employees' projected salaries.

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 retirement benefits costs under "Personnel expenses" in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements comprising actuarial gains and losses and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI 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.

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 (12) months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period.

<u>Leases effective January 1, 2019</u>
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

a) Right-of-use assets
   The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term of 20 to 40 years.

   The right-of-use assets are also subject to impairment. Refer to the accounting policies in impairment of non-financial assets.

b) 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 the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

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

c) Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are 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.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

<u>Leases prior to January 1, 2019</u>
Determination of Whether an Arrangement Contains a Lease
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. A reassessment is made after the inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the 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 give rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Operating Lease Commitments - Group as a Lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Rent income from operating leases are recognized as income on a straight-line basis over the lease term or based on the terms of the lease, as applicable. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the

leased asset and recognized over the lease term on the basis as rental income. Variable are recognized as revenue in the period in which they are earned.

Operating Lease Commitments - Group as a Lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease payments under non-cancellable operating leases are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Foreign Currency Translation
Transactions in foreign currencies are initially recorded in Philippine Peso based on the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Claims
The liabilities for unpaid claim costs (including incurred but not reported losses) and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves is continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense for the period in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvaged recoverables and deducted from the liability for unpaid claims. The unpaid claim costs are accounted as “Claims payable” under “Accounts payable and accrued expenses” account in the consolidated statement of financial position.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

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

Segment Reporting
The Group’s operating businesses are recognized and managed according to the nature of the products or services offered, with each segment representing a strategic business unit that serves different markets. The BOD is the chief operating decision maker of the Group. Segment assets and liabilities reported are those assets and liabilities included in measures that are used by the BOD.

Segment revenue, expenses and performance include transfers between business segments. The transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Events After the End of the Reporting Period
Post year-end events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures, at the end of the reporting period. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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. However, actual outcome can differ from these estimates.

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:

Determining the lease term of contracts with renewal and termination options – Group as lessee (effective January 1, 2019)
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The renewal periods for leases of land with longer non-cancellable periods (i.e., 10 to 15 years) are not included as part of the lease term since it is reasonably certain that the Group will exercise the option to renew or not exercise the option to terminate. Renewal or termination of lease is subject to mutual agreement with the lessors.

Assessment Whether an Agreement is a Finance or Operating Lease - Group as Lessee (prior to January 1, 2019)
Management assesses at the inception of the lease whether an arrangement is a finance lease or operating lease based on who bears substantially all the risk and benefits incidental to the ownership of the leased item. Based on the management's assessment, the risk and rewards of owning the items leased by the Group are retained by the lessor and therefore accounts for such lease as operating lease.

Assessing Operating Lease Commitments - Group as Lessor
The Group has entered into commercial property leases on its investment properties portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out under operating lease arrangements.

Definition of default and credit-impaired financial assets
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria – for trade receivables from real estate sales, the customer receives a notice of cancellation and does not continue the payments. For rental receivables, the customers receive letter of collection.

Qualitative criteria
The customer meets unlikeliness to pay criteria, which indicates the customer is in significant financial difficulty. These are instances where:

a. The customer is experiencing financial difficulty or is insolvent
b. The customer is in breach of financial covenant(s)
c. An active market for that financial assets has disappeared because of financial difficulties
d. Concessions have been granted by the Group, for economic or contractual reasons relating to the customer's financial difficulty
e. It is becoming probable that the customer will enter bankruptcy or other financial reorganization

The criteria above have been applied to the financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently throughout the Group's expected loss calculation.

Estimates and Assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes in circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Leases - Estimating the incremental borrowing 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 the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The Group's lease liabilities amounted to ₱1,733.45 million as at December 31, 2019 (see Note 27).

Provision for expected credit losses of trade and other receivables (effective January 1, 2018)
The Group uses a provision matrix to calculate ECLs for trade receivables except for receivables from real estate. The provision rates are based on days past due for groupings of various customer 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 such as Gross Domestic Product growth rate and inflation rate. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The Group uses vintage analysis approach to calculate ECLs for real estate receivable. 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.

The assessment of the correlation between historical observed default rates, forecast economic conditions (gross domestic product and inflation rate) and ECLs is also 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 customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Notes 5 and 19.

Estimating Useful Lives of Depreciable Investment Properties and Property and Equipment
The estimated useful lives used as bases for depreciating and amortizing the Group's investment properties and property and equipment were determined on the basis of management's assessment of the period within which the benefits of these asset items are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets. The Group estimates the useful lives of its investment properties and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment properties and property and equipment 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 estimated useful lives of these assets increases depreciation and amortization and decreases the carrying value of investment properties and property and equipment.

The carrying value of property and equipment amounted to ₱37.91 million and ₱42.25 million as at December 31, 2019 and 2018, respectively, net of accumulated depreciation, amortization and impairment amounting to ₱67.46 million and ₱50.00 million as at December 31, 2019 and 2018, respectively (see Note 11).

The carrying value of investment properties amounted to ₱10,254.51 million and ₱6,833.06 million as at December 31, 2019 and 2018, respectively (see Note 10).

Information on the estimated useful life of investment properties and property and equipment is included in Note 2.

Determining Retirement Benefits Liability
The cost of defined retirement obligation as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligation are highly sensitive to changes in these assumptions. The assumptions are reviewed at each end of the reporting period.

Current service costs amounted to ₱0.98 million, ₱1.10 million and ₱1.89 million for the years ended December 31, 2019, 2018 and 2017, respectively. As at December 31, 2019 and 2018, net pension assets of the Group amounted to ₱11.77 million and ₱17.39 million, respectively (see Note 23).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 23.

Assessing Realizability of Deferred Income Tax Assets
The Group reviews the carrying amounts of deferred income tax assets at each end of the reporting period and reduces it to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Judgments and estimation are required to determine the amount of deferred income tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies. However, there is no assurance that the Group will generate sufficient future taxable profits to allow all or part of its deferred income tax assets to be utilized.

Deferred income tax assets recognized in the books amounted to₱24.29 million and ₱14.20 million as at December 31, 2019 and 2018, respectively (see Note 24).

The temporary differences, NOLCO and MCIT for which no deferred income tax assets were recognized, as the management has assessed that it is not probable that sufficient future taxable income will be available for which the benefit of the deferred income tax assets can be utilized, are disclosed in Note 24.

Assessing and Estimating Contingencies and Provisions
The Group is involved in certain disputes for which the Group has recognized provisions for probable expenses, which may be incurred, and disclosed relevant information about such contingencies. This matter is important to our audit because the assessment of the potential outcome or liability involves significant management judgment and estimation. Total provision for probable losses amounted to ₱240.65 for the year ended December 31, 2019 and nil for the years ended December 31, 2018 and 2017. Total reversal of provision for probable losses amounted to ₱32.28 million, ₱2.25 million and nil for the years ended December 31, 2019, 2018 and 2017, respectively (see Note 28).

Estimating Fair Value of Options under the ESOWN
The Group initially measures the cost of equity-settled transactions using Cox-Ross-Rubenstein option pricing model to determine the fair value of the option at date of grant. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the volatility and dividend yield and making assumptions about them. For the year ended December 31, 2017, personnel expense and the corresponding equity reserve recognized in relation to the ESOWN amounted to ₱33.34 million (nil for the years ended December 31, 2019 and 2018). See Note 29 for further details on the ESOWN, including the assumptions used in the valuation.

4. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents
This account consists of:

	2019	2018
	(In Thousands)	
Cash on hand and in banks	**₱144,644**	₱192,597
Cash equivalents	**32,948**	27,548
	₱177,592	₱220,145

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term investments that are made for varying periods of up to three (3) months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

Short-term Investments
As at December 31, 2019 and 2018, short-term investments amounted to nil and ₱43.49 million, respectively. These consist of money market placements made for varying periods of more than three (3) months and up to one (1) year and earn interest at the rate of 2.66% to 4.50% for the year ended December 31, 2018.

For the years ended December 31, 2019, 2018 and 2017, the interest earned from cash and cash equivalents and short-term investments amounted to ₱3.55 million, ₱2.04 million, and ₱1.38 million, respectively (see Note 22).

5. **Receivables**

This account consists of:

	2019	2018
	(In Thousands)	
Trade debtors		
Land sales	**₱1,577,403**	₱769,138
Retail electricity	**329,125**	378,627
Receivables from tenants	**593,052**	364,192
Insurance receivables	**27,371**	91,100
Nontrade receivables	**95,301**	90,566
Others	**160,600**	224,976
	2,782,852	1,918,599
Less allowance for expected credit losses	**297,750**	298,780
	2,485,102	1,619,819
Less noncurrent portion	**480,274**	44,955
	₱2,004,828	₱1,574,864

Receivables from land sales represent amounts arising from sale of industrial lots, which are collectible in monthly installments within one to two years from the date of sale.

Receivables from retail electricity consist of uncollected and unbilled electricity to customers which are consumed after meter reading cut-off dates. The credit term of these receivables is from 9 to 15 days from the date of billing. This account also consists of electricity sales made by the Group to customers traded through Wholesale Electricity Spot Market (WESM).

Receivables from tenants represent the outstanding receivables arising from the lease of retail mall and office spaces and are collectible within 30 days from billing date. These are covered by security deposit of tenants equivalent to two-months rental and two-months advance rental paid by the lessees. This includes both the fixed and contingent portion of lease.

Insurance receivables consist of premium receivables from policyholders, insurance agents and reinsurance companies and reinsurance recoverable on paid and unpaid losses from facultative and treaty reinsurers. These accounts are generally on 90 days term.

Nontrade receivables consist mainly of receivables from the balance of the expropriation case against certain properties of the Group in Laguna. Nontrade receivables are noninterest-bearing and are due and demandable.

Other receivables include noninterest-bearing receivables of OLI from Cosco Land Corporation (CLC) which are due and demandable amounting to ₱160.45 million as at December 31, 2019 and 2018. These receivables are collateralized by the shares of stock of Cyber Bay owned by CLC. The receivables from CLC are fully provided with allowance.

During the year, the Group wrote-off long outstanding receivables amounting to ₱0.28 million presented as “Write off and other charges” in the consolidated statement of income.

The movements of allowance for expected credit losses on receivables follow:

	Trade debtors	Insurance receivables	Non-trade receivables	Others	Total
			(In Thousands)		
At December 31, 2017	₱71,583	₱57,296	₱–	₱170,855	₱299,734
Addition through business combination (Note 1)	1,555	–	–	–	1,555
Provisions (reversal) (Note 19)	6,812	(9,321)	–	–	(2,509)
At December 31, 2018	79,950	47,975	–	170,855	298,780
Provisions (Note 19)	38,024	–	39,691	14,244	91,959
Write-off	(42,605)	(33,259)	–	(17,125)	(92,989)
At December 31, 2019	**₱75,369**	**₱14,716**	**₱39,691**	**₱167,974**	**₱297,750**

6. **Real Estate Held for Sale and Development**

The details of this account follow:

	2019	2018
	(In Thousands)	
Land	**₱2,124,899**	₱1,316,812
Less allowance for impairment losses	**39,848**	27,567
	₱2,085,051	₱1,289,245

Land consists of parcels of land located in Cavite, Misamis Oriental, Laguna, Batangas, Palawan and Pampanga.

The composition of inventoriable costs as at December 31 follows:

	2019	2018
	(In Thousands)	
Land cost	**₱1,710,416**	₱1,063,801
Construction overhead and other related costs	**414,483**	253,011
	₱2,124,899	₱1,316,812

The rollforward analysis of real estate held for sale and development follows:

	2019	**2018**
	(In Thousands)	
Balance at the beginning of the year	**₱1,316,812**	₱797,582
Acquisition	**1,129,516**	417,759
Development costs incurred	**593,259**	390,818
Transfers to investment property (Note 10)	**(22,905)**	–
Cost of real estate sales (Note 21)	**(891,783)**	(289,347)
	2,124,899	1,316,812
Less allowance for impairment loss	**39,848**	27,567
	₱2,085,051	₱1,289,245

Movements in the allowance for impairment losses follow:

	2019	2018
	(In Thousands)	
Beginning balances	**₱27,567**	₱16,042
Provision (Note 19)	**12,281**	11,525
	₱39,848	₱27,567

Lot sales recognized for the years ended December 31, 2019 and 2018 amounted to ₱1,809.12 million and ₱785.83 million, respectively (nil for the year ended December 31, 2017).

Lot inventories recognized as cost of real estate sales amounted to ₱1,103.64 million and ₱320.22 million for the years ended December 31, 2019 and 2018, respectively (nil for the year ended December 31, 2017).

There are no real estate inventories held as collateral as at December 31, 2019 and 2018.

7. Financial Assets at FVOCI

The details of this account follow:

	2019	2018
	(In Thousands)	
Listed equity securities (Note 18)	**₱556,939**	₱575,336
Quoted debt securities	**87,807**	76,628
	₱644,746	₱651,964

Listed equity securities include 1,388,101,405 shares of Cyber Bay valued at ₱527.48 million and ₱548.30 million in 2019 and 2018, respectively (see Note 18).

Quoted debt securities pertain to government securities owned by the Group. These are reserved investments in accordance with the provisions of the Insurance Commission as security for the benefit of policy holders and creditors of FPIC.

Financial assets at FVOCI pertain to investments in equity securities and debt instruments which are not held for trading and which the Group has irrevocably designated at FVOCI, as the Group considers these investments to be strategic in nature.

Movements of unrealized valuation gain (losses) on financial assets at FVOCI follows:

	Equity Holders	Non-controlling Interests	Total
		(In Thousands)	
At December 31, 2017	(₱509,731)	₱57	(₱509,674)
Fair value changes	(69,648)	(1,048)	(70,696)
At December 31, 2018	(579,379)	(991)	(580,370)
Fair value changes	(8,325)	831	(7,494)
At December 31, 2019	**(₱587,704)**	**(₱160)**	**(₱587,864)**

Proceeds from the sale of financial assets at FVOCI amounted to nil, ₱2.02 million and ₱903.83 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Interest earned from financial assets at FVOCI amounted to ₱1.96 million, ₱3.41 million and ₱9.42 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Dividend income on financial assets at FVOCI amounted to nil, ₱0.04 million and ₱1.41 million for the years ended December 31, 2019, 2018 and 2017, respectively.

8. Financial Assets at FVPL

This account pertains to investments in redeemable preferred shares and Unit Investment Trust Fund (UITF) designated as financial assets at FVPL.

Fair value of financial assets at FVPL as at December 31, 2019 and 2018 amounted to ₱4.48 million and ₱4.52 million, respectively, resulting to an unrealized loss of ₱0.04 million, ₱0.11 million and ₱0.46 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Dividend income earned from these shares amounted to ₱0.13 million, ₱0.13 million and ₱0.26 million for the years ended December 31, 2019, 2018 and 017, respectively.

9. Other Current Assets

This account consists of:

	2019	2018
	(In Thousands)	
Input VAT	**₱580,904**	₱231,071
CWTs	**238,054**	257,099
Refundable deposits	**67,793**	57,598
Prepayments	**67,789**	48,131
Advances to suppliers and contractors	**25,422**	−
Inventories	**486**	7,342
	980,448	601,241
Less allowance for impairment losses	**2,747**	1,439
	₱977,701	₱599,802

Input VAT pertains to VAT passed on from purchases of goods or services which is applied against output VAT. In 2019, the Group wrote-off unutilized input VAT amounting to ₱1.31 million presented as “Write off and other charges” in the consolidated statement of income.

Creditable withholding taxes (CWTs) are available for offset against income tax payable in the future periods. In 2019, the Group wrote-off unutilized CWT amounting to ₱9.71 million presented as “Write off and other charges” in the consolidated statement of income.

Refundable deposits pertain to EPMI’s utility deposit for the initial set-up of electricity supply by public utility companies and interest earned from these deposits accrue to the customers of the Company. These deposits earn interest equivalent to the Peso Savings Account Interest rate of Land Bank of the Philippines on the first working day of the year, or other government banks subject to approval of ERC and may be refunded or applied to outstanding bill balance or differential billing upon termination of contract. The said deposits are equivalent to one (1) month estimated monthly billing and shall be adjusted annually to reflect the average billing during a one year period; or to replace any deposit previously applied; or to reflect the increase or decrease in load, or the number of the customers.

Prepayments pertain to prepaid insurance, taxes and licenses and other prepaid expenses that are to be amortized over a period of one (1) year.

Advances to contractors and suppliers pertain to advance payment to service contractors for construction services of the Group’s real estate held for sale and development.

Movements in the allowance for impairment losses follow:

	2019	2018
	(In Thousands)	
Balances at beginning of year	**₱1,439**	₱8,326
Provisions (Note 19)	**1,502**	3
Recovery	**–**	(6,890)
Write-off	**(194)**	–
Balances at end of year	**₱2,747**	₱1,439

Inventories pertains to finished goods inventory as of December 31, 2018 amounting to ₱7.34 million, net of allowance for inventory losses amounting to ₱34.72 million. As at December 31, 2019, finished goods inventories were written off amounting to ₱7.07 million presented as "Write off and other charges" in the consolidated statement of income.

10. **Investment Properties**

The details of this account follow:

	2019			
	Buildings and Improvements	**Land and Improvements**	**Construction in Progress**	**Total**
		(In Thousands)		
Cost				
At beginning of year	**₱8,683,051**	**₱414,058**	**₱299,312**	**₱9,396,421**
Additions	**159,802**	**2,600,661**	**929,267**	**3,689,730**
Transfers	**229,759**	**22,905**	**(229,759)**	**22,905**
Retirements	**(99,865)**	**–**	**–**	**(99,865)**
At end of year	**8,972,747**	**3,037,624**	**998,820**	**13,009,191**
Accumulated Depreciation and Amortization				
At beginning of year	**2,529,317**	**24,554**	**–**	**2,553,871**
Depreciation and amortization (Notes 19 and 21)	**271,332**	**606**	**–**	**271,938**
Retirements	**(74,334)**	**–**	**–**	**(74,334)**
At end of year	**2,726,315**	**25,160**	**–**	**2,751,475**
Balance before impairment	**6,246,432**	**3,012,464**	**998,820**	**10,257,716**
Less allowance for impairment losses	**6,281**	**3,209**	**–**	**9,490**
Write-off of impairment losses	**(6,281)**	**–**	**–**	**(6,281)**
	–	**3,209**	**–**	**3,209**
Net book values	**₱6,246,432**	**₱3,009,255**	**₱998,820**	**₱10,254,507**

	2018			
	Buildings and Improvements	Land and Improvements	Construction in Progress	Total
		(In Thousands)		
Cost				
At beginning of year	₱7,632,160	₱345,627	₱240,610	₱8,218,397
Additions through business combination (Note 1)	861,229	67,006	–	928,235
Additions	166,997	1,425	83,436	251,858
Transfers	24,734	–	(24,734)	–
Disposals	(2,069)	–	–	(2,069)
At end of year	8,683,051	414,058	299,312	9,396,421
Accumulated Depreciation and Amortization				
At beginning of year	2,190,613	21,889	–	2,212,502
Additions through business combination (Note 1)	108,087	–	–	108,087
Depreciation and amortization (Note 21)	231,709	2,665	–	234,374
Disposals	(1,092)	–	–	(1,092)
At end of year	2,529,317	24,554	–	2,553,871
Balance before impairment	6,153,734	389,504	299,312	6,842,550
Less allowance for impairment losses	6,281	3,209	–	9,490
Net book values	₱6,147,453	₱386,295	₱299,312	₱6,833,060

TPI

In 2019, TPI demolished a portion of its buildings and leasehold improvements amounting to ₱44.95 million with remaining book value amounting to ₱18.52 million. Loss on impairment was recognized amounting to ₱13.69 million, net of ₱4.83 million allowance for impairment loss (see Note 21).

Investment properties of TPI substantially represent buildings and leasehold improvements on the land leased from PNR which are utilized in the Company's mall operations and held for rentals.

In accordance with PFRS 1, the Group closed out the "Revaluation increment" on TPI's investment properties amounting to ₱236.08 million to retained earnings which pertains to the remaining balance of the deemed cost adjustment on investment properties account which arose when it transitioned to PFRS.

LCI

In 2019, LCI demolished two (2) buildings amounting to ₱54.91 million with remaining book value amounting to ₱13.29 million. Loss on impairment was recognized amounting to ₱11.84 million, net of ₱1.45 million allowance for impairment loss (see Note 21).

On July 1, 2014, LCI transferred land and improvements and buildings and improvements from property and equipment to investment properties. Prior to the transfer, the land and improvements and building and improvements are stated at their revalued amounts. Upon transfer to investment property, the revalued amounts of the properties at the date of transfer were considered as its deemed costs in accordance with PAS 40, *Investment Property*.

The excess of appraised values over the acquisition costs of the properties is shown under the "Revaluation increment" account in the consolidated statement of financial position and in the consolidated statement of changes in equity. An amount corresponding to the difference between the depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost is transferred annually from "Revaluation increment" to "Retained earnings" account in the consolidated statement of financial position.

Fair Value of Investment Properties
The aggregate fair value of the Group's investment properties amounted to ₱13,646.20 million and to ₱9,051.70 million as of December 31, 2019 and 2018, respectively.

The fair values of the investment properties were determined by independent professionally qualified appraisers. The following table provides the fair value hierarchy of the Group's investment properties as of December 31, 2019 and 2018:

2019

					Fair value measurement using		
	Observable Inputs	Valuation Technique	Date of Valuation	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
					(In Thousands)		
Land properties							
LCVI	Comparable selling price	Sales comparison approach	October 12, 2016	₱827,952	₱–	₱–	₱827,952
LTI	Comparable selling price	sales Comparison approach	October 15, 2019	1,628,520	–	–	1,628,520
URDC	Comparable selling price	sales Comparison approach	July 19, 2019	1,857,426	–	–	1,857,426

(Forward)

	Observable Inputs	**Valuation Technique**	**Date of Valuation**	**Total**	**Fair value measurement using: Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
					(In Thousands)		
Land improvements							
LCVI	**Expected rents and expenses**	**Income approach**	**February 11, 2020**	**₱833,684**	**₱–**	**₱–**	**₱833,684**
Building							
OLI	**Expected rents and expenses**	**Income approach**	**October 15, 2019**	**4,210,759**	**–**	**–**	**4,210,759**
TPI	**Expected rents and expenses**	**Income approach**	**October 15, 2019**	**1,455,578**	**–**	**–**	**1,455,578**
LCVI	**Expected rents and expenses**	**Income approach**	**February 11, 2020**	**833,684**			**833,684**
LTI	**Expected rents and expenses**	**Income approach**	**March 20, 2018**	**1,998,600**	**–**	**–**	**1,998,600**

2018

	Observable Inputs	Valuation Technique	Date of Valuation	Total	Fair value measurement using: Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
					(In Thousands)		
Land properties							
LCVI	Comparable sales price	Sales Comparison approach	October 12, 2016	₱847,684	₱–	₱–	₱847,684
LTI	Expected rents and expenses	Income approach	March 5, 2018	976,900	–	–	976,900
Land improvements							
LCVI	Current cost of replaceable items	Cost approach	October 12, 2016	13,146	–	–	13,146
Building							
OLI	Current cost of replaceable items	Cost approach	February 13, 2019	4,198,598	–	–	4,198,598
TPI	Cost of labor and materials	Cost approach	January 16, 2018	2,429,816	–	–	2,429,816
LCVI	Current cost of replaceable items	Cost approach	October 12, 2016	585,556	–	–	585,556

As of December 31, 2019, the fair value of land acquired from the previous stockholders of URDC was determined to be equivalent with the recent acquisition cost paid.

The appraised value was estimated using the following approach:

Income Approach - the fair value of all investment properties has been determined to be the actual capital expenditures since it represents the reproduction cost.

Sales Comparison Approach - the value of the property that considers the sale of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

Cost Approach - a comparative approach to the value of the property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is replica of, or equivalent to the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction or replacement cost of the subject property or asset, less total accumulated depreciation.

Revaluation Increment
Movement of revaluation increment follows:

	2019	2018
	(In Thousands)	
Beginning balance	**₱217,986**	₱225,595
Transfer of realized valuation increment	**(14,150)**	(7,609)
Balances at end of year	**₱203,836**	₱217,986

Revaluation increment realized through depreciation and transferred to deficit (net of related tax) amounted to ₱14.15 million and ₱7.61 million in 2019 and 2018, respectively. Increase in realized valuation pertains to the demolished buildings amounting to ₱6.54 million.

Rental revenue from investment properties amounted to ₱1,085.93 million, ₱843.15 million and ₱501.82 million for the years ended December 31, 2019, 2018, and 2017, respectively. Direct operating expenses incurred for investment properties amounted to ₱568.14 million, ₱615.84 million and ₱351.73 million for the years ended December 31, 2019, 2018 and 2017, respectively, (see Note 21).

Gain on sale on investment properties recognized amounted to nil, ₱0.72 million and ₱16.40 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Group's management believes that there were no conditions present in 2019 and 2018 that would significantly reduce the fair value of the investment properties from that determined as stated in table above.

The Group has no restriction on the realizability of its investment properties and no obligation to either purchase, construct or develop or for repairs, maintenance and enhancements.

11. Property and Equipment

The details of this account follow:

2019

	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Total
Cost			*(In Thousands)*		
At beginning of year	**₱2,479**	**₱50,911**	**₱9,738**	**₱29,120**	**₱92,248**
Additions	**–**	**–**	**1,230**	**11,894**	**13,124**
At end of year	**2,479**	**50,911**	**10,968**	**41,014**	**105,372**
Accumulated Depreciation and Amortization					
At beginning of year	**892**	**15,410**	**7,132**	**26,565**	**49,999**
Depreciation and amortization (Notes 19 and 21)	**674**	**11,364**	**1,414**	**4,012**	**17,464**
At end of year	**1,566**	**26,774**	**8,546**	**30,577**	**67,463**
Net Book Values	**₱913**	**₱24,137**	**₱2,422**	**₱10,437**	**₱37,909**

2018

	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Total
Cost			*(In Thousands)*		
At beginning of year	₱5,762	₱516,344	₱2,847	₱49,274	₱574,227
Additions through business combinations (Note 1)	–	5,085	6,087	8,160	19,332
Additions	–	14,014	2,121	323	16,458
Disposals	(3,212)	(5,371)	(539)	(28,583)	(37,705)
Retirements	(71)	(479,161)	(778)	(54)	(480,064)
At end of year	2,479	50,911	9,738	29,120	92,248
Accumulated Depreciation and Amortization					
At beginning of year	3,675	488,613	2,044	42,646	536,978
Additions through business combinations (Note 1)	–	5,085	5,613	7,489	18,187
Depreciation and amortization (Notes 19 and 21)	500	6,244	792	5,028	12,564
Disposals	(3,212)	(5,371)	(539)	(28,544)	(37,666)
Retirements	(71)	(479,161)	(778)	(54)	(480,064)
At end of year	892	15,410	7,132	26,565	49,999
Net Book Values	₱1,587	₱35,501	₱2,606	₱2,555	₱42,249

In September 2012, certain property and equipment and investment properties of TPI were destroyed in fire. FPIC, the insurance policy provider and also a majority-owned subsidiary of ALLHC, recognized the incident as a fire loss event. The insurance policy was substantially ceded by FPIC to third party reinsurers. In 2018, TPI received the remaining insurance proceeds from FPIC amounting to ₱6.73 million.

Gain on sale of property and equipment recognized for the years ended December 31, 2019, 2018 and 2017 amounted to nil, ₱0.003 million and ₱31.74 million, respectively.

12. Software Costs

The details of this account follow:

	2019	2018
	(In Thousands)	
Cost:		
Beginning balances	**₱15,470**	₱30,857
Additions	**35**	–
Retirements	**(2,235)**	(15,387)
Ending balances	**13,270**	15,470
Accumulated amortization:		
Beginning balances	**12,597**	25,951
Amortization (Note 19)	**1,491**	1,950
Retirements	**(2,235)**	(15,304)
Ending balances	**11,853**	12,597
Net book values	**₱1,417**	₱2,873

13. Other Noncurrent Assets

This account consists of:

	2019	2018
	(In Thousands)	
Deferred input VAT	**₱388,216**	₱413,581
Advances to suppliers and contractors	**124,401**	228,064
Refundable deposits	**31,067**	47,689
Others	**4,791**	9,759
	₱548,475	₱699,093

Deferred input VAT arises from the purchase of capital goods by the Group for amortization for a period of 5 years.

Advances to contractors and suppliers pertain to advance payment to service contractors for various renovation and rehabilitation services of the Group's buildings.

Refundable deposits pertain to deposits made to utility companies, other suppliers and various miscellaneous deposits.

During the year, the Group wrote-off miscellaneous deposits amounting to ₱0.08 million presented as "Write off and other charges" in the consolidated statement of income.

14. **Accounts Payable and Accrued Expenses**

The details of this account follow:

	2019	2018
	(In Thousands)	
Accrued expenses		
Light and water	**₱384,233**	₱343,652
Provisions (Note 28)	**254,196**	111,443
Professional and management fees	**66,857**	75,358
Commissions	**45,528**	35,567
Taxes and licenses	**22,685**	19,809
Contracted services	**15,528**	12,926
Salaries and benefits	**5,900**	4,040
Rent (Note 27)	**3,882**	101,895
Subcontractor cost	**2,612**	2,268
Repairs and maintenance	**1,308**	5,555
Others	**23,517**	40,164
	826,246	752,677
Trade payables	**1,567,961**	577,330
Nontrade payables	**258,465**	96,989
Retention payables	**86,358**	18,783
Claims payables	**15,853**	32,617
Due to reinsurers and ceding companies	**380**	2,810
Others	**17,944**	3,210
	₱2,773,207	₱1,484,416

Nontrade payables are generally settled within one (1) year.

Claims payables pertain to the estimated ultimate cost of incurred but not settled claims as at the reporting period.

Due to reinsurers and ceding companies refers to the balance of premium and claims with respect to accepted and ceded reinsurance agreement whether directly or through brokers.

The terms and conditions of the above payables are as follows:
- Trade payables are noninterest-bearing and are normally settled on thirty (30) days' term.
- All other payables are noninterest-bearing and have an average term of one (1) year.

15. **Rental and Other Deposits**

The details of this account follow:

	December 31, 2019			December 31, 2018		
	Due within One Year	**Beyond One Year**	**Total**	Due within One Year	Beyond One Year	Total
			(In Thousands)			
Security deposits	**₱373,456**	**₱153,341**	**₱526,797**	₱397,555	₱118,139	₱515,694
Rental deposits	**108,475**	**72,214**	**180,689**	76,822	20,799	97,621
Construction bond	**29,481**	**9,266**	**38,747**	21,989	13,424	35,413
Customer deposits	**6,452**	**–**	**6,452**	3,823	498	4,321
Other deposits	**–**	**–**	**–**	11,847	–	11,847
	₱517,864	**₱234,821**	**₱752,685**	₱512,036	₱152,860	₱664,896

Deposits include rental, security, customer, construction bond and other deposits paid by tenants to the Group on the leased properties which are refundable at the end of the contract. Interest expense from accretion of security deposits amounted to ₱1.65 million, ₱1.21 million and ₱1.67 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Construction bond is tenants' payments as security for repairs or any damaged caused to the Group's property arising out of or in connection to any loss, damage, or destruction to the leased premises as a result of the renovation or construction. The construction bond shall be equivalent to tenant's one month's minimum rent and can be applied as payment for outstanding accounts provided that they are in compliance with the construction guidelines and requirements imposed by the Group.

Customer deposits consist of priority premiums paid by tenants which serve as their reservation deposits.

16. Equity

The details of the common shares of the Parent Company follow:

2019

	Number of Shares	Amount
Authorized, ₱1 par value	**7,500,000,000**	**₱7,500,000,000**
Issued	**6,148,081,534**	**₱6,148,081,534**
Subscribed	**153,510,453**	**153,510,453**
Less subscription receivables		**128,287,250**
Issued and outstanding		**₱6,173,304,737**

2018

	Number of Shares	Amount
Authorized, ₱1 par value	7,500,000,000	₱7,500,000,000
Issued	4,513,228,698	₱4,513,228,698
Subscribed	1,611,944,113	1,611,944,113
Less subscription receivables		235,978,292
Issued and outstanding		₱5,889,194,519

On August 14, 2015, ALLHC entered into an agreement with ALI, whereby ALI will subscribe to 2,500,000,000 common shares of stock of ALLHC or 51.06% equity interest in ALLHC for a total consideration of ₱5,625.00 million, subject to certain terms and conditions.

In connection with the foregoing, on August 13, 2015, the BOD approved the amendment of ALLHC's Articles of Incorporation, specifically: (i) Article Sixth - to increase the number of its directors from seven (7) to nine (9); and (ii) Article Seventh - to increase its authorized capital stock from ₱2.40 billion (divided into 2.40 billion common shares at ₱1 par value) to ₱7.50 billion (divided into 7.50 billion common shares at ₱1 par value). On February 24, 2016, the Deed of Subscription was executed. ALLHC's increase in authorized capital stock was approved by the SEC on July 4, 2016. Accordingly, the amount received for the ALI subscription of ₱1,406.25 million (initially recorded as deposit for future stock subscription) was applied as payment for the subscription. ALI paid the remaining 75% of its subscription amounting to ₱4,218.75 million on November 21, 2017.

In 2019, the issued and subscribed capital and additional paid-in capital increased by ₱284.11 million and ₱226.91 million, respectively, arising from the collection of subscription receivables and issuance of shares.

In 2018, the issued and subscribed capital and additional paid-in capital increased by ₱1,232.28 million and ₱1,809.85 million, respectively, arising from business combination and ESOWN subscription.

In 2017, the issued and subscribed capital increased by ₱1,886.68 million coming from ALI's payment of subscription amounting to ₱1,875.00 million and the rest from ESOWN availment and full payment of other subscriptions.

Retained Earnings
Retained earnings also include undistributed net earnings amounting to ₱3,683.40 million and ₱3,327.69 million as of December 31, 2019 and 2018, respectively, representing accumulated equity in the net earnings of subsidiaries. These are not available for dividend distribution unless declared by the subsidiaries.

Capital Management
The primary objective of the Group's capital management is to optimize the use and earnings potential of the Group's resources and considering changes in economic conditions and the risk characteristics of the Group's activities.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes as at December 31, 2019 and 2018.

As at December 31, 2019 and 2018, the Group considers the following accounts as capital:

	2019	2018
	(In Thousands)	
Capital stock	**₱6,173,305**	₱5,889,195
Additional paid-in capital	**5,999,868**	5,772,959
	₱12,173,173	₱11,662,154

The Group is not subject to externally imposed capital requirements**.**

Shares Held by a Subsidiary
On September 5, 2019, OLI subscribed to 49,444,216 shares of the Parent Company in cash amounting to ₱144.38 million.

On June 27, 2017, OLI acquired 512,480,671 shares of the Parent Company with a cost of ₱1,255.58 million.

These are presented as Shares held by a subsidiary in the consolidated statements of financial position as at December 31, 2019.

On September 9, 2019, OLI sold 215,090,031 shares of the Parent Company to Avida Land Corp. ("Avida"), a related party, with a cost of ₱509.76 million for a total consideration of ₱628.08 million. The realized gain on sale was recorded as additional paid-in capital.

On June 3, 2019, OLI sold 323,886,640 shares of the Parent Company to ALI, a related party with a cost of ₱794.49 million for a total consideration of ₱800.00 million. The realized gain on sale was recorded as additional paid-in capital.

As at December 31, 2019 and 2018, shares held by a subsidiary amounted to ₱144.38 million and ₱1,279.03 million, respectively.

17. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities, which are under common control with the reporting enterprises and its key management personnel, directors or its stockholders. In considering each related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group has an approval requirement and limits on the amount and extent on any related party transactions.

The Parent Company and its subsidiaries, in their normal course of business, have entered into transactions with related parties principally consisting of interest and noninterest-bearing advances with no fixed repayment terms and are due and demandable. These transactions are normally settled in cash.

Account balances with related parties, other than intra-group balances which were eliminated in consolidation, follows:

As at and for the year ended December 31, 2019

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Parent				
ALI (a)	**₱54,766**	**₱140,073**	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
ALI (b)	**428,173**	**428,173**	To be settled in cash, 30-days; 4.13%	Unsecured, not impaired, and unguaranteed
Entities under common control				
Airswift Transport, Inc. (b)				
Principal	**3,000**	**23,000**	To be settled in cash, 30-days; 6.18%	Unsecured, not impaired, and unguaranteed
Interest	**663**	**1,065**		
North Triangle Hotel Ventures, Inc. (b)				
Principal	**–**	**–**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Interest	**–**	**86**		
Cebu Property Ventures Dev't. Corporation (b)				
Principal	**–**	**–**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Interest	**(3)**	**–**		
Cebu Holdings, Inc. (b)				
Principal	**(2,000)**	**26,000**	To be settled in cash, 30-days; 6.14%	Unsecured, not impaired, and unguaranteed
Interest	**177**	**177**		
Central Block Development, Inc. (b)				
Principal	**(14,300)**	**39,700**	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
Interest	**188**	**188**		
HLC Development Corp. (b)				
Principal	**(10,000)**	**–**	To be settled in cash, 30-days; 5.92%	Unsecured, not impaired, and unguaranteed
Interest	**(32)**	**59**		
Amaia Land Corporation (b)				
Principal	**23,700**	**23,700**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Interest	**125**	**128**		
Ayala Land Metro North, Inc. (b)				
Principal	**(8,300)**	**–**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Interest	**(410)**	**(97)**		
ESTA Galleria, Inc. (b)				
Principal	**10,000**	**10,000**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Interest	**107**	**107**		
ESTA Galleria, Inc. (d)	**67**	**67**		
Crans Montana Property Holdings Corp.. (b)				
Principal	**6,000**	**6,000**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Interest	**13**	**13**		

(Forward)

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Sicogon Island Tourism Estate Corp. (b)				
Principal	**₱8,000**	**₱8,000**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Interest	**11**	**11**		
Bay City Commercial Corp. (b)				
Principal	**20,000**	**20,000**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Interest	**136**	**136**		
Ayala Triangle Hotel.(b)				
Interest	**185**	**185**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Circuit Makati Hotel Ventures, Inc. (b)				
Principal	**4,300**	**4,300**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Interest	**129**	**129**		
Amicassa Process Solutions, Inc. (c)	**5,770**	**5,770**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Cagayan de Oro Gateway Corp. (b)				
Interest	**1,089**	**1,089**	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Avida Land Corporation (b)				
Principal	**(444,500)**	**–**	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
Interest	**(8)**	**847**		
Avida Land Corporation (a)	**2,802**	**2,802**		
Arvo Commercial Corporation (b)				
Principal	**(34,000)**	**20,000**	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
Interest	**2,547**	**3,505**		
Soltea Commercial Corp (b)				
Principal	**(16,000)**	**10,000**	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
Interest	**(57)**	**798**		
Summerhill Commercial (b)				
Principal	**(194,000)**	**–**	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
Interest	**(1,631)**	**1,400**		
Ten Knots Philippines, Inc. (b)				
Principal	**–**	**–**	To be settled in cash and collectible on	Unsecured, not impaired, and unguaranteed
Interest	**–**	**36**		
Bank of the Philippine Islands (c)	**(1,464)**	**785**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Globe Telecom Inc. (c)	**822**	**1,905**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Nuevocentro, Inc. (c)	**13**	**1,190**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Integrated Microelectronics, Inc. (e)	**(603)**	**–**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Innove Communications, Inc. (d)	**100**	**357**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Ayala Group Counselors Corp. (f)	**–**	**241**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Leisure and Allied Industries Phils., Inc. (d)	**(130)**	**(51)**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Makati Development Corp. (d)	**1**	**63**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
AMSI, Inc. (d)	**1,268**	**1,322**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Econorth Resort Ventures, Inc. (d)	**1**	**38**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
North Triangle Depot Commercial Corp. (d)	**–**	**21**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
South Innovative Theater Mngt, Inc. (d)	**–**	**6**	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
North Eastern Commercial (d)	**3,221**	**3,223**	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Ayala Property Management Corp. (d)	**–**	**1**		
North Ventures Commercial (d)	**1**	**1**		

(Forward)

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
PCM Formosa Company Limited (d)	₱603	₱604	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
ALI Commercial Center (c)	1,118	1,353	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Ayalaland Estates, Inc.		1		
Total		₱788,507		

Amounts owed to related parties

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Parent				
ALI (i)	₱206,416	₱269,450	Due and demandable noninterest bearing	Unsecured and unguaranteed
Ayala Corporation (j)	149,539	149,539	Due and demandable noninterest bearing	Unsecured and unguaranteed
Entities under common control				
Ayalaland Malls, Inc. (d)	1,652	2,130	Due and demandable noninterest bearing	Unsecured and unguaranteed
Ayala Property Management Corp. (d)	10,109	11,791	Due and demandable noninterest bearing	Unsecured and unguaranteed
Makati Development Corp. (g)	174,899	325,684	Due and demandable noninterest bearing	Unsecured and unguaranteed
Nuevocentro, Inc. (d)	61	2,176	Due and demandable noninterest bearing	Unsecured and unguaranteed
MDC BuildPlus, Inc. (h)	–	14,482	Due and demandable noninterest bearing	Unsecured and unguaranteed
AMSI, Inc. (d)	(480)	1,197	Due and demandable noninterest bearing	Unsecured and unguaranteed
Globe Telecom, Inc (d)	(6)	9	Due and demandable noninterest bearing	Unsecured and unguaranteed
Innove Communications, Inc. (d)	156	156	Due and demandable noninterest bearing	Unsecured and unguaranteed
APRISA Business Solutions (d)	401	401	Due and demandable noninterest bearing	Unsecured and unguaranteed
Ecosouth Hotel Ventures, Inc. (d)	5	5	Due and demandable noninterest bearing	Unsecured and unguaranteed
Bonifacio Hotel Ventures, Inc. (d)	6	6	Due and demandable noninterest bearing	Unsecured and unguaranteed
Ayala Group Counselors Corp.	4,635	4,635	Due and demandable noninterest bearing	Unsecured and unguaranteed
Ayalaland Metro North, Inc. (b)				
Principal	10,000	10,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	387	387		
Station Square (b)				
Interest	25	25	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Avida Land Corp. (b)				
Principal	154,000	154,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	488	488		
Alveo Land Corp. (b)				
Principal	32,639	32,639	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest				
Solinea, Inc. (b)				
Principal	10,000	10,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	132	132		
Summerhill Commercial Ventures (b)				
Principal	15,000	15,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	229	229		
Taft Punta Engano Property, Inc. (b)				
Principal	41,500	41,500	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	54	54		
Bellavita Land Corp. (b)				
Interest	27	27	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed

(Forward)

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Parent				
Avencosouth Corp. (b)				
Principal	₱20,000	₱20,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	311	311		
Ayala Hotels, Inc. (b)				
Principal	199,000	199,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	268	268		
Southportal Properties, Inc. (b)				
Principal	5,200	5,200	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	76	76		
AyalaLand Commercial REIT, Inc. (b)				
Principal	35,000	35,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	46	46		
ACCENDO (b)				
Principal	–	–	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	330	330		
ALI Commercial Center (b)				
Principal	–	–	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	1,178	1,178		
North Beacon Commercial Corp. (b)				
Principal	97,000	97,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	947	947		
One dela Rosa Property Development, Inc. (b)				
Principal	5,600	5,600	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	88	88		
ALI-CII Development Corp. (b)				
Principal	5,000	5,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	97	97		
MDBI Construction Corp. (b)				
Principal	47,600	47,600	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	39	39		
North Triangle Depot Commercial Corp. (b)				
Principal	42,000	42,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	50	50		
Alabang Commercial Corp. (b)				
Principal	–	–	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	204	204		
Adauge Commercial Corp. (b)				
Principal	3,000	3,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	7	7		
UP North Property Holdings, Inc. (b)				
Principal	50,000	50,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	602	602		
Glensworth Development, Inc. (b)				
Principal	18,000	18,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	294	294		
North Eastern Commercial Corp. (b)				
Principal	205,000	205,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	957	957		
Ayala Land Offices, Inc. (b)				
Principal	13,800	13,800	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	24	24		
Ayala Land Estates, Inc. (b)				
Principal	10,000	10,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	116	116		
North Ventures Commercial Corp. (b)				
Principal	65,000	65,000	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	966	966		

(Forward)

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Parent				
Asian I-Office Properties, Inc. (b)				
Principal	**₱50,000**	**₱50,000**	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	**662**	**662**		
Direct Power Services, Inc. (b)				
Principal	**40,000**	**40,000**	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	**61**	**61**		
Subic Bay Town Center, Inc. (b)				
Principal	**–**	**–**	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	**91**	**91**		
Vesta Property Holdings, Inc. (b)				
Principal	**322,000**	**322,000**	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	**124**	**124**		
CECI Realty Corp. (b)				
Principal	**30,000**	**30,000**	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	**248**	**248**		
Makati Cornerstone Leasing (b)				
Principal	**–**	**–**	To be settled in cash, 30-days; 4.125%	Unsecured, not impaired, and unguaranteed
Interest	**51**	**51**		
Total		**₱2,317,179**		

As at and for the year ended December 31, 2018

Amounts owed by related parties

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Parent				
ALI (a)	₱84,301	₱85,307	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Entities under common control				
Airswift Transport, Inc. (b)				
Principal	20,000	20,000	To be settled in cash, 30-days; 6.18%	Unsecured, not impaired, and unguaranteed
Interest	(1,444)	402		
North Triangle Hotel Ventures, Inc. (b)				
Principal	–	–	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Interest	37	86		
Cebu Property Ventures Dev't. Corporation (b)				
Principal	(8,700)	–	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Interest	3	3		
Cebu Holdings, Inc. (b)				
Principal	28,000	28,000	To be settled in cash, 30-days; 6.14%	Unsecured, not impaired, and unguaranteed
Central Block Development, Inc. (b)				
Principal	54,000	54,000	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
HLC Development Corp. (b)				
Principal	10,000	10,000	To be settled in cash, 30-days; 5.92%	Unsecured, not impaired, and unguaranteed
Interest	91	91		
Amaia Land Corporation (b)				
Principal	(36,800)	–	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Interest	(104)	3		
Ayala Land Metro North, Inc. (b)				
Principal	(27,000)	8,000	To be settled in cash, 30-days; 6.17%	Unsecured, not impaired, and unguaranteed
Interest	308	313		
Avida Land Corporation (b)				
Principal	350,700	444,500	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
Interest	792	855		
Arvo Commercial Corporation (b)				
Principal	48,000	54,000	To be settled in cash, 30-days; 6.25%	Unsecured, not impaired, and unguaranteed
Interest	954	958		

(Forward)

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Soltea Commercial Corp (b)				
Principal	₱26,000	₱26,000	To be settled in cash,	Unsecured, not impaired,
Interest	855	855	30-days; 6.25%	and unguaranteed
Summerhill Commercial (b)	75,000	194,000	To be settled in cash,	Unsecured, not impaired,
Principal Interest	2,507	3,031	30-days; 6.25%	and unguaranteed
Ten Knots Philippines, Inc. (b)	(29,000)	–	To be settled in cash	Unsecured, not impaired,
Principal Interest	(318)	36	and collectible on	and unguaranteed
Bank of the Philippine Islands (c)	2,249	2,249	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Globe Telecom Inc. (c)	1,083	1,083	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Nuevocentro, Inc. (c)	1,177	1,177	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Integrated Microelectronics, Inc. (e)	603	603	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Innove Communications, Inc. (d)	257	257	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Ayala Group Counselors Corp. (f)	241	241	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Leisure and Allied Industries Phils., Inc. (d)	79	79	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Makati Development Corp. (d)	62	62	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Ayalaland Malls Synergies, Inc. (d)	54	54	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
Econorth Resort Ventures, Inc. (d)	37	37	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
North Triangle Depot Commercial Corp. (d)	21	21	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
South Innovative Theater Mngt, Inc. (d)	6	6	To be settled in cash and collectible on demand	Unsecured, not impaired, and unguaranteed
North Eastern Commercial (d)	2	2	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Ayala Property Management Corp. (d)	1	1		
Ayalaland Estates, Inc.	1	1		
Accendo Commercial Corpooration (b)				
Principal	(10,000)	–		
Southgateway Development Corp. (b)			To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Principal	(50,000)			
Interest	(6)	–		
Guoman Philippines, Inc. (c)	(1,675)	–	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
ALI Commercial Center (c)	231	235	To be settled in cash and collectible on demand	Unsecured, noninterest-bearing, not impaired, and unguaranteed
Total		₱936,548		

Amounts owed to related parties

Category	Amount of transactions (In Thousands)	Outstanding Balance	Terms	Conditions
Parent				
ALI (i)	₱43,607	₱63,034	Due and demandable noninterest bearing	Unsecured and unguaranteed
Entities under common control				
Ayalaland Malls, Inc. (d)	478	478	Due and demandable noninterest bearing	Unsecured and unguaranteed
Ayala Property Management Corp. (d)	1,682	1,682	Due and demandable noninterest bearing	Unsecured and unguaranteed
Makati Development Corp. (g)	150,785	150,785	Due and demandable noninterest bearing	Unsecured and unguaranteed
Nuevocentro, Inc. (d)	2,115	2,115	Due and demandable noninterest bearing	Unsecured and unguaranteed
MDC BuildPlus, Inc. (h)	14,482	14,482	Due and demandable noninterest bearing	Unsecured and unguaranteed
Ayalaland Malls Synergies, Inc. (d)	1,677	1,677	Due and demandable noninterest bearing	Unsecured and unguaranteed
Globe Telecom, Inc (d)	15	15	Due and demandable noninterest bearing	Unsecured and unguaranteed
Total		₱234,268		

The following describes the nature of the material transactions of the Group with related parties as of December 31, 2019 and 2018:

a. Amounts owed by ALI pertains to rental revenue collected by ALI on behalf of OLI.
b. Amounts owed by related parties are short-term advances made by the Group with interest rate at 2.55% to 6.25 % per annum. Interest income attributable to intercompany loans amounted to ₱46.62 million and ₱29.32 million in 2019 and 2018, respectively.
c. The Group entered into operating lease agreements with entities under common control, on its investment property portfolio.
d. The Group has entered into transactions with related parties consisting of advances and reimbursements of expenses. Services rendered to and received from related parties are made at normal market prices and normally settled in cash.
e. The Group engaged the services of a third-party agency to provide security and maintenance within the Technopark which will be billed to IMI. As of December 31, 2019 and 2018, the total receivable from IMI amounted to ₱0.52 million and ₱0.60 million, respectively.
f. The Group advances cash to AG Counselors Corp. for the due diligence of a property in Cavite. As of December 31, 2019 and 2018, the unliquidated advances amounted to nil and ₱0.24 million, respectively.
g. The Group has engaged the services of MDC for the due diligence and land development of the property in Cavite.
h. MDC Build Plus is the contractor of the Group's Standard Factory Building 2 in Phase 7, Laguna Technopark. As of December 31, 2019 and 2018, the retention payable of the Group amounts to 14.48 million.
i. Payable to ALI pertains to management fees. This is due and demandable and noninterest bearing.
j. On August 2, 2019, the Group, through LTI, executed a Deed of Absolute Sale with AC for the purchase of the 624,382 sqm lot located in Laguindingan, Misamis Oriental intended for the currently being developed Laguindingan Technopark project amounting to ₱299.08 million. The 50% of the total purchase price has already been paid during the year resulting to a ₱149.54 million payable to AC as of December 31, 2019.

This assessment is undertaken at each financial year-end by examining the financial position of the related parties and the market in which the related parties operate.

Other transactions with related parties include the following:

- OLI's acquisition of land from Avida (see Note 27).

- On September 5, 2019, OLI subscribed to 49,444,216 unissued shares of ALLHC for a total consideration of ₱144.38 million. This is presented as "Shares held by a subsidiary" in the consolidated statement of financial position (see Note 16).

- On September 9, 2019, OLI sold 215,090,031 issued shares of ALLHC to Avida for a total consideration of ₱628.08 million. This is presented as a reduction to "Shares held by a subsidiary" in the consolidated statement of financial position and the resulting difference between the consideration and the carrying amount is lodged under additional paid-in capital (see Note 16).

- The Parent Company entered into a service agreement with Ayalaland Malls, Inc., and Ayalaland Malls Northeast, Inc. to provide specialized jobs/services/work to the Group. The term of the agreement shall be 3 years starting November 1, 2016 until October 31, 2019 and January 1, 2017 until December 31, 2018, respectively. The service fees arising from these agreements amounted to ₱4.05 million and ₱4.78 million, for the years ended December 31, 2019 and 2018, respectively.

- The Parent Company and TPI entered into a master service agreement with Aprisa Business Process Solutions, Inc. to provide data processing services. The agreement is effective from January 1, 2019 until December 31, 2019. The total service fees arising from these agreements amounted to ₱1.75 million and ₱1.54 million, for the years ended December 31, 2019 and 2018, respectively.

In 2019, the Group wrote-off amounts owed by related parties amounting to ₱0.33 million presented as "Write off and other charges" in the consolidated statement of income.

In 2018, the Group reversed allowance for impairment loss on amounts owed by related parties amounting to ₱1.63 million.

Compensation of key management personnel
The key management personnel of the Group are employees of ALI. As such, the compensation of the said employees is paid by ALI, the necessary disclosures required by PAS 24, *Related Party Disclosure* are included in the financial statements of ALI. Compensation for said employees are billed to the Group and form part of systems cost. Systems cost billed to the Group amounted to ₱53.28 million, ₱45.80 million and ₱9.51 million in 2019, 2018 and 2017, respectively.

18. Subscription Payable

On April 25, 1995, Central Bay, a wholly-owned subsidiary of Cyber Bay, entered into a Joint Venture Agreement with the Philippine Reclamation Authority (PRA; formerly Public Estates Authority) for the complete and entire reclamation and horizontal development of a portion of the Manila-Cavite Coastal Road and Reclamation Project (the Project) consisting of three partially reclaimed and substantially eroded islands (the Three Islands) along Emilio Aguinaldo Boulevard in Parañaque and Las Piñas, Metro Manila, with a combined total area of 157.8 hectares, another area of 242.2 hectares contiguous to the Three Islands and, at Central Bay's option as approved by the PRA, an additional 350 hectares, more or less, to regularize the configuration of the reclaimed area.

On March 30, 1999, the PRA and Central Bay executed an Amended Joint Venture Agreement (AJVA) to enhance the Philippine Government's share and benefits from the Project which was approved by the Office of the President of the Philippines on May 28, 1999.

On July 9, 2002, the Supreme Court (SC) (in the case entitled “Francisco Chavez vs. Amari Coastal Bay and Reclamation Corp.”) issued a ruling declaring the AJVA null and void.

Accordingly, PRA and Central Bay were permanently enjoined from implementing the AJVA. On July 26, 2002, Central Bay filed a Motion for Reconsideration (MR) of said SC decision. On May 6, 2003, the SC En Banc denied with finality Central Bay’s MR. On May 15, 2003, Central Bay filed a Motion for Leave to Admit Second MR. In an En Banc Resolution of the SC dated July 8, 2003, the SC resolved to admit the Second MR of Central Bay.

On November 11, 2003, the SC rendered a 7-7 split decision on Central Bay’s Second MR. Because of the new issues raised in the SC’s latest resolution that were never tried or heard in the case, Central Bay was constrained to file on December 5, 2003 a Motion for Re-deliberation of the SC’s latest resolution which motion was denied with finality by the SC. With the nullification of the AJVA, Central Bay has suspended all Project operations.

On August 10, 2007, in view of the failure by the PRA to comply with its obligations and representations under the AJVA, Cyber Bay and Central Bay have filed their claims for reimbursement of Project expenses in the amount of ₱10.2 billion with the PRA. Cyber Bay and Central Bay provided the PRA with the summary and details of their claims on September 5, 2007.

On July 15, 2008, Cyber Bay sent a follow-up letter to the PRA. The PRA, in its letter dated July 18, 2008, informed Cyber Bay that its claim is still being evaluated by the PRA.

As at December 31, 2019 and 2018, the Parent Company has unpaid subscription in Cyber Bay amounting to ₱481.68 million, which is presented as “Subscriptions Payable” in the consolidated statements of financial position. The movement in investment in Cyber Bay under “Financial assets at fair value through other comprehensive income” follows:

	2019	2018
	(In Thousands)	
Beginning balance	**₱548,300**	₱624,646
Changes in fair value	**(20,821)**	(76,346)
	₱527,479	₱548,300

19. **Operating Expenses**

The details of this account follow:

	2019	2018	2017
		(In Thousands)	
Systems costs (Note 17)	**₱53,283**	₱45,802	₱9,514
Provision for (reversal of) impairment losses (Note 5)	**91,959**	(2,509)	60,340
Personnel expenses (Notes 20 and 29)	**41,199**	29,788	84,998
Taxes and licenses	**30,041**	5,562	13,935
Janitorial and security services	**21,809**	21,978	18,031
Professional and legal fees	**17,335**	14,161	18,521
Provision for impairment losses on real estate held for sale and development (Note 6)	**12,281**	11,525	238
Depreciation and amortization (Notes 10, 11, and 12)	**6,625**	12,564	12,339

(Forward)

	2019	2018	2017
		(In Thousands)	
Rental	**₱5,213**	₱5,534	₱11,136
Communication and transportation	**3,869**	3,644	3,058
Supplies and repairs	**2,246**	1,970	1,995
Provision for probable losses on input vat (Note 9)	**1,502**	3	–
Membership dues and subscription	**1,025**	611	1,379
Representations	**589**	661	286
Insurance	**236**	204	4,908
Marketing expenses	**–**	147	385
Others	**2,591**	2,395	7,658
	₱291,803	₱154,040	₱248,721

20. **Personnel Expenses**

	2019	2018	2017
		(In Thousands)	
Compensation and employee benefits (Note 29)	**₱40,220**	₱28,692	₱83,105
Retirement expense (Note 23)	**979**	1,096	1,893
	₱41,199	₱29,788	₱84,998

21. **Cost of Real Estate Sales and Rental Services**

Cost of real estate sales

The details of this account follow:

	2019	2018	2017
		(In Thousands)	
Land and development cost (Note 6)	**₱891,783**	₱289,347	₱–
Management fee (Note 17)	**157,582**	–	–
Commission	**54,272**	30,873	–
	₱1,103,637	₱320,220	₱–

Cost of rental services

The details of this account follow:

	2019	2018	2017
		(In Thousands)	
Depreciation and amortization (Notes 10 and 11)	**₱284,268**	₱234,374	₱85,294
Taxes and licenses	**87,449**	27,628	17,707
Depreciation and amortization - Right of use asset (Note 27)	**64,754**	–	–
Management fees (Note 17)	**46,209**	56,840	–
Loss on retirement of investment properties (Note 10)	**25,531**	–	–

(Forward)

	2019	2018	2017
		(In Thousands)	
Dues and fees	**₱21,565**	₱13,690	₱–
Rental (Note 27)	**19,253**	153,085	149,558
Contracted services	**5,653**	23,024	15,105
Insurance	**3,887**	2,873	3,016
Repairs and maintenance	**3,292**	2,561	–
Share in CUSA related expenses	**3,164**	92,513	74,329
Professional fees	**858**	1,298	546
Others	**2,254**	7,955	6,173
	₱568,137	₱615,841	₱351,728

22. **Interest Income and Bank Charges - net and Other Income - net**

Interest income and bank charges

The details of this account follow:

	2019	2018	2017
		(In Thousands)	
Interest income:			
Cash and cash equivalents and short-term investments (Note 4)	**₱3,551**	₱2,036	₱1,383
Amounts owed by related parties (Note 17)	**46,618**	29,315	36,938
Retirement benefits liability - net (Note 23)	**1,370**	960	813
	51,539	32,311	39,134
Interest expense and bank charges:			
Interest expense	**49,318**	726	1,673
Bank charges	**918**	13	47
	50,236	739	1,720
	₱1,303	₱31,572	₱37,414

Other income

Other income, net of other charges, includes collection of forfeited deposits and penalty charges, proceeds from disposal of scraps and reversal of accruals.

23. **Retirement Benefits Liability**

The Group has a funded, noncontributory retirement plan covering all its regular employees. The plan provides for retirement, separation, disability and death benefits to its members. The normal retirement benefit is based on a percentage of the employees' final monthly salary for every year of credited service.

The latest independent actuarial valuation dated December 16, 2019 was determined using the projected unit credit method in accordance with PAS 19 (R).

The following tables summarize the funded status and amounts recognized in the consolidated statements of financial position, and the components of the net retirement benefit costs recognized in the consolidated statements of income for the retirement plan:

	2019	2018
	(In Thousands)	
Retirement benefits asset:		
Present value of obligation (PVO)	**₱8,620**	₱1,622
Fair value of plan assets	**(20,387)**	(19,012)
Overfunded obligation	**(₱11,767)**	(₱17,390)

	2019	2018	2017
		(In Thousands)	
Retirement benefits costs:			
Current service cost (Note 20)	**₱979**	₱1,096	₱1,893
Interest cost (income) - net (Note 22)	**(1,370)**	(960)	(813)
	(₱391)	₱136	₱1,080

Movements in the retirement benefits asset follow:

	2019	2018
	(In Thousands)	
Balances at beginning of year	**(₱17,390)**	(₱20,667)
Addition through business combination (Note 1)	**–**	(180)
Retirement benefits costs	**(391)**	136
Actuarial loss	**4,256**	50
Benefits paid out of own plan	**–**	4,196
Contribution	**(934)**	(1,156)
Transfer from affiliates	**2,692**	231
Balances at end of year	**(₱11,767)**	(₱17,390)

Changes in the PVO follows:

	2019	2018
	(In Thousands)	
Balances at beginning of year	**₱1,622**	₱613
Addition through business combination (Note 1)	**–**	1,543
Current service cost	**979**	1,096
Interest cost	**125**	112
Benefits paid	**–**	(718)
Actuarial gain (loss)	**3,202**	(1,255)
Transfer from affiliates	**2,692**	231
Settlement gain	**–**	–
Balances at end of year	**₱8,620**	₱1,622

Changes in fair value of plan assets follows:

	2019	2018
	(In Thousands)	
Balances at beginning of year	**₱19,012**	₱21,280
Addition through business combination (Note 1)	**–**	1,723
Interest income	**1,495**	1,072
Actuarial loss on plan assets	**(1,055)**	(1,305)
Contribution	**934**	1,156
Benefits paid	**–**	(4,914)
Balances at end of year	**₱20,386**	₱19,012

Changes in remeasurement of retirement benefit plan under other comprehensive income follows:

	2019	2018
	(In Thousands)	
Balances at beginning of year	**₱44,313**	₱46,259
Actuarial loss (gain) on plan assets		
Return loss (gain) on plan assets	**1,055**	1,305
Remeasurement loss (gain) due to liability experience	**714**	(132)
Remeasurement loss (gain) due to liability assumption changes–demographic	**(445)**	–
Remeasurement loss (gain) due to liability assumption changes – economic	**4,870**	(1,123)
Transfer from retained earnings	**–**	(1,996)
Balances at end of year	**₱50,507**	₱44,313

The categories of plan assets as a percentage of fair value of the total plan assets follows:

	2019	2018
Cash	**8.32%**	16.88%
Fixed income	**91.60%**	82.96%
Others	**0.08%**	0.16%
	100.00%	100.00%

The plan assets are invested in different financial instruments and do not have any concentration risk. The asset allocation of the plan is set and reviewed from time to time by the Trustee taking into account the membership profile and the liquidity requirements of the plan. This also considers the expected benefit cash flows to be matched with asset durations.

As at December 31, 2019 and 2018, the plan assets do not include any debt or equity instruments nor any property occupied, or other assets of the Group's related parties.

The Group does not expect to contribute to the retirement plan in 2020.

The principal assumptions used to determine pension for the Group are as follows:

	2019	2018	2017
Discount rates	**5.15% to 7.40%**	7.40% to 8.16%	5.65% to 5.89%
Salary increase rate	**5.00% to 7.00%**	5.00% to 7.00%	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Increase (decrease) in significant assumptions	Increase (decrease) in defined benefit obligation
December 31, 2019		
Discount rate	**+1%**	**(₱1,328)**
	(1%)	**1,673**
Future salary increases	**+1%**	**1,655**
	(1%)	**(1,346)**
December 31, 2018		
Discount rate	+1%	(₱315)
	(1%)	400
Future salary increases	+1%	404
	(1%)	(324)

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which change other than those assumed may be deemed to be more reasonable.

The following table shows the maturity profile of the Group's defined benefit obligation based on undiscounted benefit payments:

	2019	2018
	(In Thousands)	
Less than 1 year	**₱277**	₱–
More than 1 year to 5 years	**5,782**	4,224
More than 5 years to 10 years	**7,413**	3,933
More than 10 years to 15 years	**9,412**	132,061
More than 15 years to 20 years	**8,307**	2,757
More than 20 years	**24,126**	14,442

The average duration of the defined benefit obligation is 17.08 to 24.00 years and 14.96 to 22.43 years in 2019 and 2018, respectively.

24. Income Tax

The details of provision for income tax follow:

	2019	2018	2017
		(In Thousands)	
Current	**₱183,462**	₱160,080	₱10,649
Final	**993**	855	1,030
Deferred	**(64,582)**	(8,740)	8,439
	₱119,873	₱152,195	₱20,118

The Group's current provision for income tax for the years ended December 31, 2019, 2018 and 2017 represent regular corporate income tax.

Registration with the Philippine Economic Zone Authority (PEZA) and Board of Investments (BOI) Incentives

LTI
On October 17, 1991, PEZA approved the registration of LTI as a non-pioneer "ecozone developer/operator" of Laguna Technopark Special Economic Zone in Biñan, Laguna. On July 13, 2016, PEZA approved the registration of the LTI as an "ecozone developer/operator"of Cavite Technopark Special Economic Zone in Naic, Cavite.

As a registered ecozone enterprise, LTI is entitled to establish, develop, construct, administer, manage and operate a special export processing zone in accordance with the terms and conditions in the Registration Agreement with PEZA.

LTI pays income tax at the special tax rate of 5% on its gross income earned from sources with the PEZA economic zone in lieu of paying all national and local income taxes. Gross income earned refers to gross sales or gross revenues derived from any business activity, net of returns, and allowances, less cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses. Income generated from sources outside of the PEZA economic zone shall be subject to regular internal revenue taxes.

URDC
The Board of Investments issued a certificate of registration dated December 6, 2019 to URDC in accordance with the existing Omnibus Investment Code. The project located in Mabalacat, Pampanga has been granted an Income Tax Holiday (ITH) for a period of four (4) years from the date of commercial operations.

The reconciliation of the statutory income tax rates to the effective income tax rates follows:

	2019	2018	2017
At statutory tax rates	**30.0%**	30.0%	30.0%
Additions to (reductions in) income taxes resulting from:			
Movements in unrecognized deferred income tax assets	**5.4**	(0.1)	(2.8)
Income subject to lower tax rate	**(7.6)**	(9.3)	–
Expired NOLCO	**0.2**	(0.1)	(15.3)
Interest income already subjected to final taxes	**0.2**	0.2	(3.2)
Nondeductible expenses	**2.3**	0.4	14.0
Expired MCIT	**–**	–	(1.9)
Other nontaxable income	**–**	(1.4)	(2.3)
At effective tax rates	**30.5%**	19.7%	18.5%

The significant components of the deferred income tax assets - net of the Group follows:

	2019	2018
	(In Thousands)	
Deferred income tax asset on:		
Allowance for impairment losses on receivables		
Lease liabilities	**₱79,720**	₱–
Allowance for impairment losses on receivables	**16,792**	–
Remeasurement loss on retirement benefits liability	**1,331**	–
NOLCO	**–**	15,881
Others	**2**	–
	97,845	15,881
Deferred income tax liability on:		
Right-of-use asset	**(67,819)**	–
Accrued rent income	**(2,280)**	(1,684)
Revaluation reserve on investment properties	**(2,250)**	–
Unrealized gain on foreign exchange	**(1,204)**	–
	(73,553)	(1,684)
	₱24,292	₱14,197

The significant components of the deferred income tax liabilities - net of the Group follows:

	2019	2018
	(In Thousands)	
Deferred income tax assets:		
Lease liabilities	**₱434,978**	₱–
Allowance for impairment losses on receivables	**10,951**	25,983
MCIT	**5,484**	5,484
Deferred rent	**2,978**	5,876
Remeasurement loss on retirement benefits liability	**1,594**	–
PAS 17 rent expense	**–**	17,753
Others	**13,603**	2,801
	469,588	57,897
Deferred income tax liabilities:		
Right-of-use asset	**(330,270)**	–
Recovery on insurance	**(98,382)**	(98,382)
Revaluation increment on property and equipment	**(82,844)**	(97,931)
Accrued rent income	**(16,086)**	–
Revaluation reserve on investment properties	**(55,690)**	(60,014)
Undepreciated capitalized interest	**(6,466)**	(6,466)
Retirement plan assets	**(5,070)**	(4,856)
Unrealized gain on foreign exchange	**–**	(1,204)
Remeasurement gain on retirement benefits liability	**–**	(2,290)
Unrealized gain on valuation of FVOCI financial assets	**–**	(2,055)
	(594,808)	(273,198)
	(₱125,220)	(₱215,301)

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. The Group reassesses the unrecognized deferred income tax assets on the following deductible temporary differences, NOLCO and MCIT and recognizes the previously unrecognized deferred income tax assets to the extent that it has become probable that future taxable income would allow the deferred income tax assets to be recovered.

	2019	2018
	(In Thousands)	
NOLCO	**₱261,393**	₱156,449
Allowance for impairment losses on receivables, other current assets, inventories and others	**18,232**	814,489
MCIT	**399**	1,649

As at December 31, 2019, the Group has NOLCO and MCIT that can be claimed as deduction from future taxable income and tax due, respectively:

Year Incurred	Expiration Date	NOLCO	MCIT
2017	2020	₱–	₱3,658
2018	2021	52,937	–
2019	2022	7,839	3,154
		₱60,776	₱6,812

The following are the movements in NOLCO as at December 31, 2019 and 2018:

	2019	2018
	(In Thousands)	
Balances at beginning of year	**₱209,386**	₱206,300
Additions	**7,839**	52,937
Expirations/Application	**(156,449)**	(49,851)
	₱60,776	₱209,386

The following are the movements in MCIT as at December 31, 2019 and 2018:

	2019	2018
	(In Thousands)	
Balances at beginning of year	**₱7,133**	₱7,484
Additions	**3,154**	138
Expirations/Application	**(3,475)**	(489)
	₱6,812	₱7,133

25. **Earnings Per Share**

The following table presents information necessary to calculate basic earnings per share:

	2019	2018	2017
		(In Thousands)	
a. Net income attributable to equity holders of the Parent	**₱595,838**	₱441,908	₱33,143
b. Weighted average number of shares	**6,226,225**	5,350,484	4,155,983
Basic/diluted earnings per share (a/b)	**₱0.10**	₱0.08	₱0.01

There are no potentially dilutive common shares as of December 31, 2019, 2018 and 2017.

26. **Segment Information**

Revenue from Contracts with Customers

This account consists of:

	2019	2018
	(In Thousands)	
Sale of electricity	**₱2,395,977**	₱1,734,957
Lot sales	**1,809,120**	785,828
	₱4,205,097	₱2,520,785

The Group derives revenue from the transfer of goods and services over time. The Group's disaggregation of each sources of revenue from contracts with customers are presented below:

Lot sales

	2019	2018
	(In Thousands)	
Pampanga	**₱1,020,019**	₱–
Cavite	**501,657**	629,738
Laguna	**287,444**	156,090
	₱1,809,120	₱785,828

Sale of electricity

	2019	2018
	(In Thousands)	
Sales to external customers	**₱1,848,801**	₱1,383,129
Sales to related parties	**547,176**	351,828
	₱2,395,977	₱1,734,957

Business Segments
The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit.

The industry segments where the Parent Company and its subsidiaries and associates operate are as follows:

- Holding Company
- Real estate - commercial leasing and industrial lot sales and development
- Retail electricity supply

The amount of segment assets and liabilities are based on measurement principles that are similar with those used in measuring assets and liabilities in the consolidated statements of financial position which is in accordance with PFRS.

Financial information about the operations of these business segments is summarized as follows:

December 31, 2019

	Holding Company	Real Estate and Property Development	Retail and Electricity Supply	Others	Total	Elimination	Total
				(In Thousands)			
Revenue and income	**₱–**	**₱2,895,050 ***	**₱2,395,977**	**₱54,954**	**₱5,345,981**	**₱–**	**₱5,345,981**
Cost and expenses	**(29,117)**	**(1,872,771)**	**(2,312,310)**	**(53,040)**	**(4,267,238)**	**–**	**(4,267,238)**
Other income (charges)	**(25,251)**	**(289,123)**	**1,684**	**(4,761)**	**(317,451)**	**–**	**(317,451)**
Income (loss) before income tax	**(54,368)**	**733,156**	**85,351**	**(2,847)**	**761,292**	**–**	**761,292**
Provision for income tax	**13**	**101,308**	**17,776**	**776**	**119,873**	**–**	**119,873**
Net income (loss)	**(₱54,381)**	**₱631,848**	**₱67,575**	**(₱3,623)**	**₱641,419**	**₱–**	**₱641,419**
Segment assets	**₱15,335,960**	**₱17,581,046**	**₱693,396**	**₱1,259,930**	**₱34,870,332**	**(₱15,501,823)**	**₱19,368,509**
Segment liabilities	**₱4,016,626**	**₱6,104,128**	**₱629,563**	**₱485,344**	**₱11,235,661**	**(₱3,043,349)**	**8,192,312**

*Includes lot sales amounting to ₱1,809.12 million and rental revenue amounting to ₱1,092.54 million.

December 31, 2018

	Holding Company	Real Estate and Property Development	Retail and Electricity Supply	Others	Total	Elimination	Total
				(In Thousands)			
Revenue and income	₱–	₱1,633,361*	₱1,734,957	₱1,633	₱3,369,951	₱–	₱3,369,951
Cost and expenses	(40,091)	(1,031,287)	(1,689,281)	(21,251)	(2,781,910)	(1,819)	(2,783,729)
Other income (charges)	9,618	112,244	–	16,527	138,389	(17,700)	120,689
Income (loss) before income tax	(30,473)	714,318	45,676	(3,091)	726,430	(19,519)	706,911
Provision for income tax	–	147,291	3,492	1,412	152,195	–	152,195
Net income (loss)	(₱30,473)	₱567,027	₱42,184	(₱4,503)	₱574,235	(₱19,519)	₱554,716
Segment assets	₱11,940,456	₱13,398,367	₱647,277	₱1,386,964	₱27,373,064	(₱14,398,671)	₱12,974,393
Segment liabilities	₱1,217,592	₱2,611,220	₱559,742	₱759,191	₱5,147,745	(₱2,047,602)	₱3,100,143

*Includes real estate sales amounting to ₱785.83 million and rental revenue amounting to ₱843.15 million.

December 31, 2017

	Holding Company	Real Estate and Property Development	Retail and Electricity Supply	Others	Total	Elimination	Total
Revenue and income	₱–	₱502,168	₱–	₱104,437	₱606,605	₱3,875	₱610,480
Cost and expenses	(49,780)	(447,475)	–	(182,768)	(680,023)	(13,183)	(693,206)
Other income (charges)	45,537	71,448	–	20,122	137,107	(15,712)	121,395
Income (loss) before income tax	(4,243)	126,141	–	(58,209)	63,689	(25,020)	38,669
Provision for income tax	1,371	17,846	–	1,344	20,561	(443)	20,118
Net income (loss)	(₱5,614)	₱108,295	₱–	(₱59,553)	₱43,128	(₱24,577)	₱18,551
Segment assets	₱15,568,091	₱2,602,415	₱–	₱1,473,973	₱19,644,479	(₱10,720,934)	₱8,923,545
Segment liabilities	₱849,787	₱1,588,208	₱–	₱803,503	₱3,241,498	(₱1,574,809)	₱1,666,689

Geographical Segments

The Group does not have geographical segments.

27. **Leases**

The Group has lease contracts for land used in its operations. Leases of land generally have lease terms between 25 and 30 years. The lease contracts are further discussed below.

Set out below are the carrying amounts of right-of-use assets (land) recognized and the movements as of and for the period December 31, 2019:

	Amount
	(In Thousands)
Balance at January 1	₱1,353,872
Additions	37,846
Depreciation expense (Note 21)	(64,754)
Balance at December 31	₱1,326,964

Set out below are the carrying amounts of lease liabilities and the movements as of and for the period December 31, 2019:

	Amount
	(In Thousands)
Balance at January 1	₱1,694,120
Additions	37,846
Accretion of interest	151,188
Payments	(149,704)
Balance at December 31	₱1,733,450

The maturity analysis of undiscounted lease payments follows:

	Amount
	(In Thousands)
Within one (1) year	₱139,655
More than one (1) year but not more than five (5) years	835,867
More than five (5) years	2,916,619
	₱3,892,141

The following are the amounts recognized in profit or loss:

	Amount
	(In Thousands)
Depreciation expense for right-of-use assets (Note 21)	₱64,754
Interest expense on lease liabilities	151,188
Rent expense relating to short-term leases (Note 19)	5,213
Variable lease payments (Note 21)	19,253
	₱240,408

Group as Lessee

TPI

On August 28, 1990, TPI, through a Deed of Assignment, acquired all the rights, titles, interests and obligations of Gotesco Investment, Inc. on a contract of lease of the land owned by PNR for the Tutuban Terminal and where TPI's mall is located. The contract provided for a payment of a guaranteed minimum annual rental, 12% escalation rate every two (2) years, additional ₱10 million every two (2) years, plus a certain percentage of gross sales. The lease covers a period of twenty-five (25) years until 2014 and is automatically renewable for another twenty-five (25) years, subject to compliance with the terms and conditions of the lease agreement.

On December 22, 2009, TPI renewed its lease contract with PNR for another twenty-five (25) years beginning September 5, 2014, the end of the original lease agreement.

LTI
On August 7, 2017, LTI entered into a Contract of Lease with ALI to lease a parcel of land located in Brgy. Loma, Biñan, Laguna with an area of approximately 54,190 square meters (sqm) primarily for the construction, development and operation of Standard Factory Buildings (SFBs).

The contract provided for a payment of a guaranteed minimum monthly rental with a 10% escalation rate every five (5) years. The lease covers a period of twenty-five (25) years until December 31, 2041 and is renewable, subject to the mutual agreement of the parties and to compliance with the terms and conditions of the lease agreement.

On September 22, 2017, LTI entered into a Contract of Lease with Nuevocentro, Inc., a related party, to lease parcels of land located at the Alviera Industrial Park, Barangay Dolores and Banaba, Porac, Pampanga, with an area of approximately 27,469 sqm primarily for the construction, development and operation of SFBs.

The contract provided for a payment of a guaranteed minimum monthly rental with a 10% escalation rate every five (5) years. The lease covers a period of thirty (30) years until October 31, 2047 and is renewable for another ten (10) years, subject to the mutual agreement of the parties and to compliance with the terms and conditions of the lease agreement.

On November 7, 2017, LTI entered into a Contract of Lease with Alveo Land, Corp., a related party, to lease a parcel of land located in Biñan, Laguna with an area of approximately 82,690 sqm primarily for the construction, development and operation of SFBs.

The contract provided for a payment of a guaranteed minimum monthly rental with a 10% escalation rate every five (5) years. The lease covers a period of twenty-five (25) years until December 31, 2041 and is renewable, subject to the mutual agreement of the parties and to compliance with the terms and conditions of the lease agreement.

On August 1,2019, LTI entered into a Contract of Lease with Nuevocentro, Inc. to lease a parcel of land located at the Alviera Industrial Park, Barangay Dolores and Banaba, Porac, Pampanga, with an area of approximately 14,163 sqm primarily for the construction, development and operation of SFBs.

The contract provided for a payment of a guaranteed minimum monthly rental with a 10% escalation rate every five (5) years. The lease covers a period of twenty-nine (29) years until October 31, 2047 and is renewable for another ten (10) years, subject to the mutual agreement of the parties and to compliance with the terms and conditions of the lease agreement.

OLI
OLI, by Assignment of Lease executed between ALI and Avida Land Corporation on November 29, 2017, assumed a lease agreement with Avida to lease a land located along National Road, Muntinlupa City with an area of approximately 19,311 square meters (sqm) for the construction, development and operation thereon of a commercial retail development for a period of 50 years.

The lease agreement provides for a rental fee equivalent to 1.50% and 1.00% of gross rental income which will be paid on a monthly basis for the first three years for the retail mall portion and office portion. The rates will increase to 8.60% and 4.50% on the fourth year which will be applicable onwards.

On July 5, 2019, Avida Land, Corp. sold to Orion Land, Inc. (OLI) the parcel of land, previously being leased by OLI where the South Park Mall is located in Muntinlupa City, with a purchase price of ₱772.44 million of which ₱10.00 million was paid during the execution date and the remaining ₱607.95 million and ₱154.49 million after six and twelve months, respectively.

Group as a Lessor
The Group has entered into commercial property leases on its buildings. These leases have remaining terms of one (1) year to less than five (5) years except for one (1) tenant with lease term of fifteen (15) years. Renewals are subject to the mutual consent of the lessor and the lessee.

Tenants are required to post security deposits, which shall be refunded, without interest, within sixty (60) days after the expiration of the lease period, deducting the amount of damages to the leased premises, if any. The discounted amount of noncurrent rental deposits amounted to ₱258.09 million and ₱152.86 million as at December 31, 2019 and 2018, respectively.

Accretion of interest amounted to ₱1.65 million, ₱1.21 million and ₱1.67 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Group recognized deferred rent income amounting to ₱8.90 million and ₱19.59 million as of December 31, 2019 and 2018, respectively, of which the current portion amounted to ₱2.02 million and ₱9.35 million as of December 31, 2019 and 2018, respectively, and noncurrent portion amounted ₱6.87 million and ₱10.24 million as at December 31, 2019 and 2018.

As of December 31, 2019, future minimum rentals receivable under non-cancellable operating leases of the Group follows (amounts in thousands):

Less than one (1) year	₱380,668
More than one (1) year but not more than five (5) years	981,328
More than five (5) years	76,596
	₱1,438,592

28. Provisions and Contingencies

The Group, in the ordinary course of business, is involved in various legal proceedings and assessments that are either pending decision by the courts or under negotiation. Management and its legal counsels believe that the eventual outcome of these lawsuits or claims will not have a material effect on the consolidated financial statements. 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.

The rollforward of the provisions follows:

	2019	2018
	(In Thousands)	
Beginning balance	**₱111,443**	₱113,689
Provisions	**240,647**	–
Reversals	**(32,280)**	(2,246)
Settlement	**(65,614)**	–
	₱254,196	₱111,443

The information normally required under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the proceedings.

29. **Share-based Payments**

In 2015, the Group introduced the ESOWN Plan (the Plan) wherein grantees (employees within ALLHC Group) may subscribe in whole or in part to the shares awarded to them based on a discounted market price, but in no case lower than the par value, that was determined at grant date. The grantees will pay for the shares subscribed through installments over a maximum period of ten (10) years. To subscribe, the grantee must be an employee, officer or director of the Group as of June 30, 2015. In case the grantee resigns, unsubscribed shares are cancelled and returned to the plan pool, while the subscription payments may be converted into the equivalent number of shares. In case the grantee is separated, not for cause, but through retrenchment and redundancy, subscribed shares may be paid in full, unsubscribed shares may be subscribed, or payments may be converted into the equivalent number of shares. In case the grantee retires, the grantee may subscribe to the unsubscribed shares anytime within the ten (10)-year period. The plan does not allow sale or assignment of the shares.

The BOD of ALLHC approved the allocation of 32 million shares (first tranche) for ESOWN plan which will be taken from the remaining unissued shares (with grant date in 2016) and the increase in authorized of stock of ALLHC, which was approved by the SEC in July 2016 as discussed in Note 16.

In 2017, notice of grant for the 218 million shares (second tranche of ESOWN plan) was issued to employees for the right to subscribe to the common shares of ALLHC at ₱1.68 per share.

The availment period for the first tranche and for the second tranche of ESOWN plan is within 30 days from employees' receipt of notice of grant and within 30 days after one year from employees' receipt of notice of grant, respectively.

The fair values of these options are estimated on the date of grant using the Cox-Ross-Rubenstein option pricing model.

The assumptions used to determine the fair value of the stock options are as follows:

	December 31, 2017
Share price at date of grant	₱2.12
Risk free interest rate	5.6818%
Annualized volatility	49.68%
Annual dividend yield	0%
Exit rates	
Termination for cause	0%
Voluntary Resignation	0%
Involuntary Separation	7.29%

The resulting personnel expense recognized for the year ended December 31, 2017 amounted to ₱33.34 million (nil for the years ended December 31, 2019 and 2018, see Note 23). ESOWN availment in 2018 resulted in increase in capital stock and additional paid-in capital of ₱6.91 million and ₱25.17 million, respectively (nil for the years ended December 31, 2019 and 2017).

30. **Financial Instruments**

Fair Value Information

The following tables set forth the carrying values and estimated fair values of the Group's financial assets and liabilities recognized as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Thousands)		
Financial Assets at FVPL	**₱4,479**	**₱4,479**	₱4,519	₱4,519
Financial Assets at FVOCI				
Quoted equity securities	**556,939**	**556,939**	575,336	575,336
Quoted debt securities	**87,807**	**87,807**	76,628	76,628
Refundable Deposits	**98,860**	**96,591**	105,287	99,438
	₱748,085	**₱745,816**	₱761,770	₱755,921
Other Financial Liabilities				
Rental and other deposits	**₱752,685**	**₱746,734**	₱664,896	₱586,096

The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such values at December 31, 2019 and 2018 are set out below:

Cash and Cash Equivalents and Short-term Investments

The carrying amount of cash and cash equivalents approximates its fair values due to the short-term maturity of this financial instrument.

Receivables - current, Accounts Payable and Accrued Expenses and Amounts owed to and by Related Parties

The carrying amounts of the current portion of receivables, accounts payable and accrued expenses and amounts owed by related parties approximate their fair values due to their short-term nature.

Refundable Deposits under Other noncurrent assets and Rental and Other Deposits

The carrying amounts of current portion of rental and other deposits approximates its fair value due to the short-term maturity of this financial instrument. The fair values of noncurrent security deposit recorded under 'Rental and other deposits" and refundable deposits recorded under 'Other noncurrent assets' are determined by discounting future cash flows using the applicable rates of similar types of instruments.

Financial Assets at FVOCI

Equity financial assets that are listed are based on their quoted prices published in markets as at December 31, 2019 and 2018. Debt financial assets that are quoted are based on published market prices as at December 31, 2019 and 2018.

Financial Assets at FVPL

Listed equity securities designated as financial assets at FVPL are based on their quoted prices as at December 31, 2019 and 2018. The fair value of the UITF has been determined based on the net asset values as of reporting date, based on the nature and level of adjustments needed to be made to the NAV and the level of trading in the money market UITF.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Quoted FVOCI financial assets amounting to ₱644.75 million and ₱651.96 million as of December 31, 2019 and 2018, respectively, were classified under Level 1.

FVPL amounting to ₱4.48 million and ₱4.52 million as of December 31, 2019, and 2018, respectively were classified under Level 2.

The fair value disclosure of rental and other deposits and refundable deposits as of December 31, 2019, and 2018, were classified under Level 3.

There have been no reclassifications from Level 1 to Level 2 categories in 2019 and 2018.

Financial Risk Management Objectives, Policies and Capital Management

The Group has various financial instruments such as cash and cash equivalents, receivables, amounts owed by/to related parties, financial assets at FVOCI, FVPL investments, deposits under other noncurrent assets, accounts payable and accrued expenses, rental and other deposits and subscriptions payable. The main purpose of these financial instruments is to raise funds and maintain continuity of funding and financial flexibility for the Group. The Group has other financial liabilities such as accounts payable and accrued expenses and rental and other deposits, which arise directly from its operations.

The main risks from the use of financial instruments are liquidity risk, credit risk and equity price risk. The Group's BOD reviews and approves policies for managing these risks as summarized below.

Liquidity Risk

Liquidity risk arises when there is a shortage of funds and the Group as a consequence could not meet its maturing obligations.

In the management of liquidity, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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

December 31, 2019

	On demand	**Less than 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
			(In Thousands)			
Accounts payable and accrued expenses	**₱1,373,081**	**₱205,393**	**₱–**	**₱716,840**	**₱477,893**	**₱2,773,207**
Lease liabilities	**–**	**–**	**–**	**30,973**	**1,702,477**	**1,733,450**
Subscription payable	**481,675**	**–**	**–**	**–**	**–**	**481,675**
Rental and other deposits	**603,526**	**16,429**	**6,910**	**65,094**	**60,726**	**752,685**
Amounts owed to related parties	**2,317,179**	**–**	**–**	**–**	**–**	**2,317,179**
	₱4,775,461	**₱221,822**	**₱6,910**	**₱812,907**	**₱2,241,096**	**₱8,058,196**

December 31, 2018

	On demand	Less than 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
			(In Thousands)			
Accounts payable and accrued expenses	₱1,197,324	₱287,092	₱–	₱–	₱–	₱1,484,416
Subscription payable	481,675	–	–	–	–	481,675
Rental and other deposits	346,325	21,278	8,985	135,448	152,860	664,896
Amounts owed to related parties	234,268	–	–	–	–	234,268
	₱2,259,592	₱308,370	₱8,985	₱135,448	₱152,860	₱2,865,255

Credit Risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

Trade debtors – real estate receivables
For real estate receivables, exposure to credit risk is not significant given that title of the real estate property is only transferred to the customer if the consideration had been fully paid. In case of default, after enforcement activities, the Group has the right to cancel the sale and enter into another contract to sell to another customer after certain proceedings (e.g. grace period, referral to legal, cancellation process, reimbursement of previous payments) had been completed. Applying the expected credit risk model did not result in the recognition of an impairment loss for real estate receivables in 2019 and 2018.

Trade debtors - retail electricity
An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

To mitigate risk for retail electricity, the Group will collect deposits equivalent to ₱182.12 million to secure credit. Also, as a policy after application of collected deposits, disconnection notices are sent 5 days after the bill due date and disconnections are carried out beginning on the 24 hours after receipt of disconnection notice.

Applying the expected credit risk model did not result in the recognition of an impairment loss for trade debtors – retail electricity in 2019 and 2018.

Trade debtors – receivable from tenants
Credit risk arising from receivables from tenants of leasing properties is primarily managed through a tenant selection process. Prospective tenants are evaluated on the basis of payment track record and other credit information. In accordance with the provisions of the lease contracts, the lessees are required to deposit with the Group security deposits and advance rentals which helps reduce the Group's credit risk exposure in case of defaults by the tenants. The security deposits and advance rental are considered in the calculation of impairment as recoveries. For existing tenants, the Group has put in place a monitoring and follow-up system. These are aged and analyzed on a continuous basis to minimize credit risk associated with these receivables. Regular meetings with tenants are also undertaken for further assessment of paying capacity.

Set out below is the information about the credit risk exposure of the Group's trade debtors - receivables from tenants using a provision matrix:

	2019				
	Current	**More than 30 days**	**More than 60 days**	**More than 90 days**	**Total**
	(In Thousands, except for %)				
Expected credit loss rate	**0.07%**	**22.16%**	**34.03%**	**62.48%**	**39.56%**
Total gross carrying amount	**₱429,110**	**₱33,033**	**₱22,684**	**₱108,225**	**₱593,052**
Expected credit losses	**286**	**2,845**	**1,971**	**32,922**	**38,024**

	2018				
	Current	More than 30 days	More than 60 days	More than 90 days	Total
	(In Thousands, except for %)				
Trade receivables					
Expected credit loss rate	0.10%	0.61%	0.61%	3.46%	1.19%
Total gross carrying amount	₱52,278	₱83,589	₱57,844	₱170,481	₱364,192
Expected credit losses	51	510	353	5,898	6,812

Generally, "Trade debtors" under "Receivables" receivables are written-off if past due for more than one year and are not subject to enforcement activity.

Cash in banks and cash equivalents
Credit risk from balances with banks and financial institutions and related parties is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis and may be updated throughout the year subject to approval of the Group's Finance Committee. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

Financial assets at FVOCI – quoted debt securities
The Group's debt instruments at fair value through OCI comprise solely of government securities. The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade' and, therefore, 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. Applying the expected credit risk model did not result in the recognition of an impairment loss in 2019 and 2018.

Insurance receivables, non-trade and other receivables
Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties. An impairment analysis is performed at each reporting date to consider when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. These receivables are written off when there is no reasonable expectation of recovering the contractual cash flows. Applying the expected credit risk model resulted in the recognition of an impairment loss amounting to ₱53.94 million and nil in 2019 and 2018, respectively. Total write offs amounted to ₱50.38 million and ₱9.32 million in 2019 and 2018, respectively (see Note 5).

The Group's maximum exposure to credit risk as of December 31, 2019 and 2018 is equal to the carrying values of its financial assets, except for "Trade debtors" under "Receivables" in the statements of financial position. The details follow:

	2019			
	Gross maximum exposure	**Fair value of collateral or credit enhancement**	**Net exposure**	**Financial effect of collateral or credit enhancement**
	(In Thousands)			
Cash in banks	**₱144,644**	**₱–**	**₱144,644**	**₱–**
Cash equivalents	**32,948**	**–**	**32,948**	**–**
Trade debtors				
Land sales	**1,577,403**	**1,809,120**	**–**	**1,577,403**
Retail electricity	**329,125**	**182,118**	**147,007**	**182,118**
Receivables from tenants	**593,052**	**558,164**	**28,937**	**564,115**
Insurance receivables	**27,371**	**–**	**27,371**	**–**
Nontrade receivables	**95,301**	**–**	**95,301**	**–**
Others	**160,600**	**3,811**	**150**	**156,639**
Financial assets at FVOCI – quoted debt securities	**87,807**	**–**	**87,807**	**–**
	₱3,048,251	**₱2,553,213**	**₱564,165**	**₱2,480,275**

	2018			
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
		(In Thousands)		
Cash in banks	₱192,597	₱–	₱192,597	₱–
Cash equivalents	27,548	–	27,548	–
Trade debtors				
Land sales	769,138	998,230	–	769,138
Retail electricity	378,627	179,724	198,903	179,724
Receivables from tenants	364,192	406,372	–	364,192
Insurance receivables	91,100	–	91,100	–
Nontrade receivables	90,566	–	90,566	–
Others	224,976	3,914	64,526	156,536
Financial assets at FVOCI – quoted debt securities	76,628	–	76,628	–
	₱2,215,372	₱1,588,240	₱741,868	₱1,469,590

Equity Price Risk
Equity price risk is the risk that the fair values of equities decrease as the result of change in the levels of equity indices and the value of individual stock. The equity price risk exposure arises from the Group's investment in stocks. Equity investment of the Group is categorized as financial assets at FVOCI.

The Group measures the sensitivity to its equity securities by using Philippine Stock Exchange index fluctuations and its effect to respective share prices.

The Group's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on its financial position.

The basic sensitivity analysis assumes that the stock's standard deviation on its historical yield for the past one year provides the basis for reasonably possible change in prices of the stock investment. The Group establishes the relative range of stock investment yields based on historical standard deviation for one year.

The following table demonstrates the sensitivity to reasonable possible change in equity prices, with all other variables held constant:

	Effect on equity Increase (decrease)	
Change in PSEi index	**2019**	2018
	(In Thousands)	
+5.00%	**₱32,253**	₱34,690
(5.00%)	**(32,253)**	(34,690)

The impact on the Group's equity already excludes the impact on transactions affecting the consolidated statements of income.

31. **Notes to Cash Flows**

Changes in the Group's liabilities arising from financing activities follow:

	January 1, 2019	**Cash Flows**	**Non-cash Changes**	**December 31, 2019**
		(In Thousands)		
Amounts owed to related parties	**₱234,268**	**₱2,082,911**	**₱–**	**₱2,317,179**
Lease liabilities	**1,694,120**	**(149,704)**	**189,034**	**1,733,450**
Total liabilities from financing activities	**₱1,928,388**	**₱1,933,207**	**₱189,034**	**₱4,050,629**

	January 1, 2018	Cash Flows	Non-cash Changes	December 31, 2018
		(In Thousands)		
Amounts owed to related parties	₱19,427	₱214,841	₱–	₱234,268

In 2019, significant non-cash transactions of the Group and the Parent Company (other than the impact of PFRS 16 adoption as discussed in Note 2) include transfer from inventories to investment properties amounting to ₱22.91 million (see Notes 6 and 10) and demolition of investment properties amounting to ₱99.87 million (see Note 10).